

THE UNITED REPUBLIC OF TANZANIA
MINISTRY OF AGRICULTURE



SACCOS SUPERVISION MANUAL

Prepared by:

Tanzania Cooperative Development Commission,
P. O. Box 201,
DODOMA

Second Edition November, 2024

SACCOS SUPERVISION MANUAL FOR TANZANIA COOPERATIVE DEVELOPMENT COMMISSION (TCDC)



SACCOS SUPERVISION MANUAL

Table of Contents

CHAPTER ONE.....	6
INTRODUCTION.....	6
1.1 Objective of this guideline	6
1.2 Mandate for Inspection and Investigation	7
1.3 SACCOS Supervision Process	7
1.3.1 Inspectory risk-assessment framework	8
CHAPTER TWO.....	10
PLANNING, SCOPING AND PREPARING INSPECTION	10
2.1 Planning the Inspection Work.....	10
2.1.1 Appointment of inspection team and team leader.....	10
2.1.2 Understanding SACCOS and its system.....	10
2.1.3 Conducting off site Inspection	11
2.2 Scoping Before Inspection	14
2.2.1 Setting the scope	14
2.2.2 Staffing.....	14
2.2.3 Development of work plan before inspection process	14
2.2.4 Request materials from SACCOS.....	15
2.2.5 Surprise inspections	15
CHAPTER THREE	17
CONDUCTING ON-SITE INSPECTION	17
3.1 Introduction.....	17
3.2 Day 1 of the Inspection	17
3.2.1 Introduction of the inspection team.....	18
3.2.2 Discussion on the scope of the inspection.....	18
3.2.3 Organization.....	18

3.2.4	Information needs and planning.....	18
3.3	Inspection Period.....	18
3.4	Inspection Questionnaires & Procedures.....	24
3.5	Final Days of the Inspection.....	28
3.6	CAMEL Rating System	29
3.7	Assigning a CAMEL Rating	31
3.8	Assignment of the Composite Rating.....	34
3.9	Implementing CAMEL Ratings	36
3.10	Last Day of the Inspection.....	37
	CHAPTER FOUR	39
	REVIEW OF REPORT AND RECORDS OF INSPECTION	39
	Section A. The Internal Process for Requesting an Administrative Measures.....	41
	APPENDICES.....	44
	Appendix 1	44
	Inspection Letter	44
	Appendix 2 :	45
	Information Request from the SACCOS Prior to the inspection	45
	Appendix 3.	47
	Inspection Questionnaires.....	47
	Appendix 5	66
	A Sample of On-Site Inspection Report	66
	Appendix 6	72
	Off-site Reporting Forms.....	72
	COMPREHENSIVE INCOME FORM	72

PREFACE

For several years SACCOS inspection and supervision in Tanzania has encountered numerous challenges. Among of the challenges facing SACCOS supervision and Inspection include; ad-hoc inspection and supervision, unqualified Board members and management on supervising their SACCOS, insufficient skills and knowledge among TCDC Cooperative Officers, Poor record keeping of SACCOS operations, poor documentations and custodian of inspection results, lack of clear follow-up on the inspection results and findings in SACCOS, unclear measures and controls tools for evaluating SACCOS operations and performances, poor quality control on reviewing supervision and inspection activities as well as untimely reporting and communication on inspection and supervision findings.

In recognition of the above challenges, The Registrar has developed this guideline in order to address the challenges aforementioned and provide step-by-step procedures for conducting inspections and supervision in accordance with Cooperative Society's Act No 6 of 2013, Microfinance Act No.10 of 2018 and its regulations of 2019. This guideline will provide better supervision oversight that function to all SACCOS in Tanzania. The guideline introduces a standard approach to SACCOS supervision and has provided in detail, simple approaches to a complete SACCOS supervision by focusing on the areas of risks as provided in the Acts and Regulations. The guideline shall be reviewed by the Registrar from time to time in order to accommodate changes in the laws, regulations and best practices.

Therefore, it is my expectation that the Cooperative officers who are SACCOS inspectors will use this guideline effectively and efficiently in conducting supervision and inspections of SACCOS activities accordingly.

I wish to record my appreciation to all organs, officials, and individuals who devoted their time in preparation of this guideline.



Dr. Benson O. Ndiege

THE REGISTRAR OF COOPERATIVE SOCIETIES

CHAPTER ONE

INTRODUCTION

Savings and Credit Cooperative Society (SACCOS) is a type of financial institution owned and operated by its members. They are formed and registered with the objectives of providing financial intermediation on behalf of their members. This SACCOS Supervision Guideline is designed to explain the philosophy and methods that the Tanzania Cooperative Development Commission (TCDC) shall use in inspectory framework for SACCOS in the Country. This manual describes a step-by-step process, including inspectory schedule, providing clear guidance on assigning a CAMEL rating, providing sample questionnaires for on-site inspections and incorporating new risk areas such as market conduct supervision and cyber-security.

The guideline intends to provide guidance to TCDC personnel in implementing SACCOS Supervision. In particular, the Manual provides guidance on both off-site and on-site activities which have been integrated into the Risk-Based Supervision process. These activities include understanding the SACCOS, planning and conducting onsite inspection, assessment and rating of CAMEL ratio, and follow-up and monitoring of SACCOS.

The sequential order of the guideline covers the following sections as per chapter: planning and inspections based on the risks presented in SACCOS; setting the scope of an inspection and the steps to be taken before the inspection; and on-site inspection questionnaires for inspectors use and guidance (these questionnaires are included here as Appendix 3); follow-up documentation and action steps that should be completed after an inspection; returning to off-site supervision and monitoring after an on-site inspection.

The guideline serves both as a reference guide and a working tool for TCDC staff tasked with implementation of Supervision. It will be updated periodically in order to consider developments in inspectory principles, standards and best practices, including changes in legal and regulatory environment and introduction of new financial products and services.

1.1 Objective of this guideline

The guideline encourages independent reasoning, objectivity, efficiency, and professionalism in the inspection process. The guideline describes the inspectory process to follow and is intended to:

- i) Achieve its primary mission of protecting SACCOS members.
- ii) Provide guidance and reference tools for TCDC staff in implementing and conducting supervision and inspection.
- iii) Enhance efficiency and accountability among TCDC staff members.
- iv) Promote consistent application, and set forth minimum standards for inspection objectives and procedures; and
- v) Reflect this manual as a legal and regulatory framework in which TCDC operates and its compliance ratios/standards.

1.2 Mandate for Inspection and Investigation

TCDC has the mandate to inspect and investigate the SACCOS in accordance with Section 91 and 93 of the Cooperative Act No. 6 of 2013 and its regulation of 2015. In the same manner, the Microfinance Act of 2018, section 47 and regulation 65 of the SACCOS Regulation 2019 stipulate the same power of TCDC as a delegated authority. Therefore, TCDC has a mandatory obligation as per mentioned Laws and Regulation.

1.3 SACCOS Supervision Process

Figure 1.1 gives a summary of the integrated process of risk-based supervision and its various components. The inspectory process starts with off-site monitoring (covered in Chapter 6) by SACCOS submitting prudential reports to TCDC. Based on prudential reports and past on-site inspection, financial ratings are developed (Chapter 3). These ratings as well as the relative impact of the size of the SACCOS in the market determine the resource scheduling (Chapter 2) of on-site inspections. The preparation and process for conducting the inspection is discussed in detail (Chapters 2 and 3) and followed by compiling an inspection report (Chapter 4) and identifying, if any, enforcement or corrective actions needed (Chapter 5). The process, then, re-starts as the corrective actions and performance are monitored from off-site.



Figure 1: Risk Based Inspectory Process

1.3.1 Inspectory risk-assessment framework

Risk-Based Supervision is made on the ground that inspectory resources should be allocated to areas of high risk in the particular SACCOS. Risk assessment should be done continuously, but at least on a quarterly basis and during on-site Inspections both full scope and Inquiry. Inspection.

Business activities of a particular SACCOS present various combinations and concentrations of different risks depending on the nature and scope of a particular activity. Therefore, when conducting a risk assessment, consideration must be given to the SACCOS overall risk environment, the adequacy of its internal risk management systems as well as the adequacy of its management information systems (MIS) and the risks associated with each of its significant business activities.

In order to focus the inspectory activities on the areas of high risk to the SACCOS, risk assessment should be carried out continuously, every month for SACCOS with License Category B and quarterly for SACCOS with License category A. The risk assessment will highlight both the strengths and vulnerabilities of the particular SACCOS and provide a foundation for determining the inspectory activities to be conducted. Furthermore, the assessment should apply to the entire field of risks facing the particular SACCOS. One of the techniques that may be used in making SACCOS risk assessment is a risk matrix.

The matrix summarizes the level of risks inherent in the SACCOS activities and the quality of risk management in mitigating such risks. It also summarizes the direction of those risks after considering both internal and external factors which may affect the SACCOS risk profile over the next twelve months.

1.3.2.1 Identification of significant activities/functional Areas

Significant activities include any significant line of business, unit or process. Significant activities are identified from various sources including SACCOS organization chart, strategic business plan, capital allocations, internal and external financial reporting such as balance sheet and income statement. Identification of significant activities is important for determining the risks inherent in the activities of SACCOS.

For the purpose of risk assessment, all the identified six common risks (credit, liquidity, market, operational, strategic and compliance risks) should be mapped onto such significant activities in order to assist inspectors in identifying the risks inherent in each activity. During the preparation of the scope, the inspector should, at minimum, prepare a Functional Risk Mapping Chart and determine SACCOS activities and inherent risks which are significant should be included in the scope.

1.3.2.2 Assessment of the quality of risk management

During the assessment of the quality of the SACCOS risk management, primary consideration should be placed on the review of the following key elements of a sound risk management system: Board and senior management oversight; SACCOS policies, procedures and limits stated; risk measurement, monitoring, and management information systems; and internal controls placed by the specific

SACCOS. The relative strengths of the management processes and controls for each identified risk should be assessed under the aforementioned four key elements considered to be useful.

1.3.2.3 Projection of the direction of a risk during the next 12 months

The direction of a risk adds the forward-looking perspective to the risk-based supervision approach. In general, the direction of a risk is a forecast for the next twelve months and is a function of various factors including anticipated changes in the SACCOS external environment, planned changes in the strategic direction and current state of management and the related risk management systems.

Mapping of Inherent Risks onto Functional Areas/Activities

S/N	Functional Area	Credit	Liquidity	Market	Operational	Strategic	Compliance
1	Lending	x	x	x	x	x	x
2	Savings and Deposit		x	x	x	x	x
3	Investments	x	x	x	x	x	x
4	Micro leasing	x	x	x	x	x	x
5	Micro insurance(Agent of Insurers)				x	x	x
6	Agent banking		x	x	x	x	x

CHAPTER TWO

PLANNING, SCOPING AND PREPARING INSPECTION

2.1 Planning the Inspection Work

Planning is the most important phase of the inspection process as it provides guidance to the Cooperative Inspectors on when to schedule a SACCOS inspection and how to conduct it under various conditions. Moreover, it determines the resources needed; both human and financial resources; the scope of inspection, and provides familiarization with a particular SACCOS, whereby all of this should be documented in the Inspection Strategy that will determine the extent, timing and direction of inspection per assignment.

This phase involves: appointment of inspection team (including team leader); obtaining an understanding of the SACCOS and its system to be inspected; conducting risk assessment and its related internal control resources allocation, budget and administration; preparation of inspection program/plan; assessment for ethical issues and independence for team members.

2.1.1 Appointment of inspection team and team leader

After identifying the SACCOS to be inspected in a particular assignment or engagement, the team members shall be selected, basing on the nature, scope and business operation of the SACCOS, also the selection of team member should consider experience, skills and knowledge of staff so as to conduct effective and efficiency inspection.

2.1.2 Understanding SACCOS and its system

Under this area, the inspectors seek to familiarize themselves with the activity, the operating objectives and the flow of activities of the SACCOS to be inspected. It is important that the objectives of the particular SACCOS are well known for the purpose of identifying the risks that may hinder its achievements. In achieving this, the Inspectors use different methods such as documentary reviews, e.g. Applicable Laws and Regulations; Registrars' guidelines and other directives; SACCOS Policies and Procedures; Organization Structure and Function of SACCOS; Professional Qualifications of Board Members and Management of SACCOS and reviewing previous reports, internal control system, information from members of the SACCOS. In addition to that, the inspector may understand the particular SACCOS basing on qualitative and quantitative information by considering financial and non-financial ratios through analytical procedures.

The following objectives are essential for planning the inspection work:

- (i) Document the effectiveness of a SACCOS operations by focusing protection of asset quality, earnings, liquidity and capital growth.
- (ii) Determine compliance with laws, regulations, Registrar's guidelines, directives and internal policies.
- (iii) Determine the adequacy of and adherence to the SACCOS own policies and procedures.

- (iv) Assess the effectiveness of the management information system.
- (v) Assess the board's oversight and ensure that management is capable and provides the board with complete and accurate reports.
- (vi) Assess the effect of anticipated internal and external changes on the particular SACCOS.
- (vii) Assess the SACCOS ability to meet its future needs (e.g., fund growth, provision of capital, and absorbance of losses);
- (viii) Assess budget projections and its actual performance; and
- (ix) Follow up on previous inspection report findings and recommendations including.
 - analysis and conclusions regarding the SACCOS overall condition, trends, and prospects for future viability,
 - corrections of previous weaknesses, and
 - concerns of material risk and corrective action when needed.

2.1.3 Conducting off site Inspection

2.1.3.1 Under this stage, the inspectors will be involved in identifying the inherent risks and significant activities related to the inspection objectives which were identified in the introductory part, by applying risk-based procedures. The common risks in SACCOS that may be actual or potential includes credit, liquidity, operational, market, strategy and compliance risks. Scheduling of inspections

Inspectors should systematically review the off-site monitoring reports for the purpose of identifying the riskiest areas through CAMEL system, this will be aided by continuous updating of financial ratings based on prudential filings through the use of automation. Off-site monitoring work will also provide information on the dates of all SACCOS's most recent full-scope inspections. At this time, inspectors need to consider the number of staff members, the estimated duration of the inspection, and the skills of the staff that will be needed for the upcoming inspections.

A full-scope, on-site inspection should be conducted in every SACCOS with a frequency based on the SACCOS size and off-site monitoring risk report at not more than every 12 months. Supplementary or limited scope inspections are necessary when a particularly narrow focus is needed in an area or issue. In contrast, a full-scope inspection includes a detailed review of all operational, financial and governance areas in a particular SACCOS.

TCDC shall measure Inspection cycles from the "end date" of the last inspection to the "start date" of the next inspection. The "start date" is the date of Inspectors arriving on-site at the particular SACCOS. The "end date" is the date on which the Exit meeting of the Inspection is conducted Inspection (to the particular SACCOS).

By conducting an on-site inspection, TCDC provides further opportunities to learn new quantitative and qualitative information about a SACCOS that is not revealed in the monthly or quarterly reports which SACCOS provides to TCDC.

Table 2.1: Risk-based Schedule for Full Scope on-site Inspections of SACCOS

Categories ¹	Low Risk CAMEL Rating of 1 or 2	Medium Risk CAMEL Rating of 3	High Risk CAMEL Rating of 4 or 5
Large SACCOS: > 10 Billion Tsh. in Assets	On-site every after 18 months	Onsite every after 12 months	Request a restructuring plan; Continuous monitoring, onsite or prudential meetings every after 6 months. Move towards resolution via rehabilitation, merger or liquidation. <i>Require a capital restoration plan and/or take other enforcement actions as per Microfinance Act and regulations.</i>
Medium SACCOS: 1-10 Billion Tsh. in Assets	On-site every after 18 months	Onsite every after 12 months	Request a restructuring plan. Continuous monitoring, onsite or prudential meetings at least every after 6 months. Move towards resolution via rehabilitation, merger or liquidation. <i>Require a capital restoration plan and/or take other enforcement actions per the Microfinance Act and its Regulations.</i>
Small: <1 Billion Tsh in Assets	Onsite every after 12 months	Onsite every after 6 months	Request a restructuring plan. Continuous monitoring, onsite or prudential meetings at least every after 6 months. Move towards resolution via rehabilitation, merger or liquidation. <i>Require a capital restoration plan and/or take other enforcement actions per the Microfinance Act and its Regulations.</i>

2.1.3.2 Team-leader responsibilities

Once TCDC has established the need and tentative date for the inspection, a Team Leader/inspector should be selected. The Team Leader carries the primary responsibility of managing the inspection. The responsibilities of the Team Leader are as follows:

- (i) **Inspection objectives:** The Team Leader must ensure that the team members understand the objectives of the inspection and their assigned areas of review. The objectives should be specific as per the desired results.
- (ii) **Inspection procedures:** The inspection procedures contained in the individual areas of review are designed to be comprehensive so that the Team Leader selects only the appropriate procedures within each area. Team members should notify the Team Leader as problems arise regarding the scope or depth of review.
- (iii) **Organization:** The Team Leader schedules meetings with the SACCOS board and personnel; arranges appropriate workspace for the inspection team; prioritizes and

¹ The range of these tiers should be reviewed and updated at least after every two years.

schedules workflow; communicates inspection status; prepares the consolidated inspection report; and prepares, files, indexes, and reviews work papers;

- (iv) **Assignments and job monitoring:** The Team Leader must determine the expertise necessary to perform certain aspects of the inspection and schedule assignments accordingly. When warranted, (s) he assigns major areas to individual inspectors. Depending on the size of the job, delegates certain management responsibilities to inspectors for efficiency and improvement of administrative and managerial skills of inspectors. Furthermore, the team leader considers training and development needs when making inspection assignments.

Whenever possible, the team leader assigns inspectors to distinct areas that they can complete before leaving the assignment. This allows for efficiency and accountability, and provides necessary on-the-job training, for example, a review of IT or internal controls, asset quality, etc.

Monitor inspectors' performance throughout the inspection to ensure that objectives are being met according to schedule and to prevent minor problems from growing. Early identification of work-related problems also allows the inspectors the opportunity to correct mistakes and to immediately improve upon skills.

- (v) **Budgeting and monitoring overall time:** The team leader establishes a Time Budget, (a useful tool for improved personnel planning), which is a time and planning summary organized according to the sections contained in this manual. The time budget specifies the areas for which procedures are planned and provides for a comparison of actual and budgeted hours. The following elements may prove useful when constructing the time budget:

- Assign priorities to critical categories and determine optimal timing of simultaneous activities. Ordinarily, this can be accomplished by assigning categories of related programmes to one assistant who may subsequently supervise others. Having one inspector complete interrelated programmes to avoid duplication of effort is most efficient.
- Conduct inspections as quickly as is practical to minimize costs and disruption for the SACCOS.
- Monitor the progress of the inspection to allow for early adjustments to the scope, staffing, and completion date, as necessary. The Team Leader notifies the TCDC as soon as adjustments to scope are a consideration.

- (vi) **Inspector Serving as the primary communications link:** The Team Leader is the focal point for communication on significant matters. Inspectors and SACCOS personnel must all know how to communicate information and when to share information. During inspections, it is important that answers to significant items be given by only one responsible individual. The Team Leader should coordinate this in case questions arise.

Meeting the overall inspection objectives: At the conclusion of the inspection, the Team Leader should ensure that the inspection meets the objectives and that inspectors follow appropriate procedures for all inspection functions. The Team Leader is also responsible for conducting the exit meeting, putting

the final report together and ensuring that all Plans of Actions are workable and have been reviewed and agreed upon by SACCOS management and Board Members.

2.2 Scoping Before Inspection

The proper scoping of an inspection requires that the Team Leader is aware of the SACCOS strengths and weaknesses. This requires the Team Leader to be familiar with the SACCOS strategy and operating history, including a review of the previous inspection reports, the last audit report, and other previous periodic reports.

To help TCDC to meet its targets for on-site presence in each SACCOS defined above, it must place special emphasis on risk analysis and prioritization. That is, vary the depth of review in each area according to a SACCOS size, inherent risk, institutional form, activities, and condition.

The focus should be on areas of major risk, and then, if needed, expand the scope as significant problems or changes are identified. The following items should be reviewed and considered when determining the scope of the inspection:

2.2.1 Setting the scope

- (i) a clear written statement of the inspection's objectives indicating areas of greatest concern.
- (ii) last two on-site inspection reports where applicable.
- (iii) quarterly off-site monitoring reports since the previous on-site inspection.
- (iv) the latest approved external audit report, including the management letter.
- (v) exception reports and documentation on inspector and enforcement actions, if any.
- (vi) loan listing and list of non-performing loans for insiders.
- (vii) correspondence with and potential changes in the SACCOS management.
- (viii) economic information about the SACCOS market area(s).
- (ix) additional procedures not covered in the manual, if necessary; and
- (x) total number of hours needed to complete the inspection, and the number of inspectors and the appropriate skill sets needed for the inspection.

2.2.2 Staffing

Upon setting the desired scope, the Team Leader/inspector must submit the staffing request, ensuring none of the team members has a potential conflict of interest with the organization to be inspected, and receive approval from the Registrar or Assistant Registrars for the case of regional level.

The Team Leader (if appointed) should prepare a formal letter to the SACCOS General Manager and Board Chairman informing them of the start date, anticipated duration, number of inspectors attending, and scope of the inspection (See Appendix 1 for a sample inspection notice). If it is a limited scope inspection, this should also be communicated.

2.2.3 Development of work plan before inspection process

The Team Leader should develop a work plan for the inspection, re-verify the availability of inspectors involved in the inspection, and furnish them with the final copy of the inspection scope developed for the inspection planned.

The Team Leader/Inspector should determine which questionnaires will be utilized in the inspection and review their relevancy. If the existing questionnaires are not relevant, the Team Leader should develop new supplementary questions or worksheets. When using this risk-focused inspection approach, he/she must use sound professional judgment to ensure that the depth of the review is sufficient but not excessive to accurately assess the SACCOS condition. Inspectors do not need to ask SACCOS management/staff every question listed in a questionnaire, but rather only those necessary to assess the compliance and status of the covered area. In addition to completing questionnaires, inspectors will need to complete worksheets that are applicable to their areas of review and provide all the inspector's findings and **Plans of Action** for the area they reviewed.

The Team Leader/Inspector should make sure that there are working papers, adequate transportation facilities or financing and living allowances; if applicable; for inspectors.

2.2.4 Request materials from SACCOS

2.2.4.1 Pre-inspection meeting

All inspectors that will be involved in the on-site inspection will have to meet to review:

- (a) The scope of inspection.
- (b) The work plan for the inspection including inspector which inspector will lead on which areas. In a full scope inspection, the inspectors will be split into four working groups which will include: i) Governance & Administration (GA), ii) Credit & Collections (CC), iii) Finance & Accounting (FA) and iv) Operations and Market Conduct (OMC);
- (c) The materials that will be requested from SACCOS.
- (d) An overview of the financial health and areas of greatest focus for the inspection; and
- (e) A review of logistical and transportation details.

2.2.4.2 Coordination

The Team Leader should ensure that his/her team has the equipment (laptops, working papers, calculators, etc.) and the resources needed (i.e., copies of all relevant regulations, laws, questionnaires) and that the particular SACCOS will have a suitable space that will be private and free from excessive distractions.

2.2.5 Surprise inspections

The process for scheduling, conducting and determining the scope of surprise inspection will be different from a scheduled inspection. The purpose of such an inspection is to detect internal fraud that could be covered up with the course of a pre-announced inspection.

In certain instances, where internal fraud is suspected; it will be useful to conduct a surprise inspection. In these instances, upon arrival, the Team Leader will have to inform the manager and Board of the SACCOS on why the inspection is being conducted and that they must have full access to records. Reconciliation of teller and treasury cash in the SACCOS premise and with bank deposits, subsidiary ledgers and monthly reports filed with TCDC will have to be completed immediately.

A limited-scope or supplementary inspection does not satisfy the full-scope on-site inspection requirement in that it focuses on a specific area (e.g., asset quality, internal control, etc.). The team leader will have to consider the following factors to determine if a particular SACCOS requires a limited scope inspection:

- (i) Potential danger of losing the SACCOS assets according to the prudential and statistical reports and deteriorating asset quality.
- (ii) Liquid funds necessary for meeting the liabilities or making payments of the particular SACCOS decrease significantly or continuously.
- (iii) Investigation of legislative violations.
- (iv) Significant changes in key CAMEL ratios and/or risk profile.
- (v) Significant changes in business activity and strategy, e.g. loan product lines, investment portfolio, deposit structure, etc.
- (vi) Negative earnings, unfavourable earnings trends, or dependence on non-operating income.
- (vii) Levels and composition of capital, as well as trends in capital formation and accumulation; and
- (viii) Excessive rate of growth of assets or a level of growth that exceeds capital levels.

CHAPTER THREE

CONDUCTING ON-SITE INSPECTION

3.1 Introduction

The intention of conducting an on-site inspection is to help the inspectors to develop a deeper understanding of SACCOS through more detailed discussions and observation of activities and practices in its mission to protect members. However, because of the higher costs and time associated with on-site inspections, they are conducted less frequently than off-site monitoring and are determined on a risk-basis. The following areas shall be reviewed during a full scope on-site inspection:

- (i) Sufficiency of the provision for loan loss account.
- (ii) Compliance with regulations and laws with a focus on prudential norms (i.e. capital adequacy, liquidity, loan and deposit concentration risk, credit risk, etc.)
- (iii) Cash and investments analysis.
- (iv) Fixed assets.
- (v) Risk assessment of the loan portfolio.
- (vi) Profitability.
- (vii) Competence of management and board and committee officials and minutes from meetings.
- (viii) Inspectory committee activities.
- (ix) Adequacy of internal controls
- (x) Frauds and imbursement.
- (xi) Management information system and cyber-security.
- (xii) Accounting, general ledger, and financial statements.
- (xiii) Policies and procedures.
- (xiv) Budgetary planning.
- (xv) Asset liability management.
- (xvi) Safety of member deposits and other debt obligations.
- (xvii) Trends of Non-performing loan.
- (xviii) Market conduct practices including disclosures in member contracts, rates, fees and penalties, collection practices, pricing practices, data privacy, foreclosure of collaterals, complaint resolution mechanisms and process for determining loan affordability.
- (xix) Subsidiaries and other non-SACCOS activities.
- (xx) Relationship within the related companies; and
- (xxi) Risk management framework and its adequacy in safeguarding the assets of SACCOS.

3.2 Day 1 of the Inspection

The Team Leader should include only those questionnaires pertaining to the inspection scope and objectives. At the beginning of the inspection, the Team should conduct meeting with the Board and SACCOS manager to discuss scope of inspection and items of interest or concern of the current inspection. The items to be covered in the meeting may include:

3.2.1 Introduction of the inspection team

3.2.2 Discussion on the scope of the inspection

- (i) SACCOS developments since the last inspection.
- (ii) Corrective actions of weaknesses/problems noted in the previous inspection.
- (iii) New services/products/activities/branches/investments from previous inspection.
- (iv) New accounting/computer systems; and
- (v) Availability of information for inspection

3.2.3 Organization

- (i) Board of directors/inspectory committee/management/changes.
- (ii) Significant planned or probable developments.
- (iii) Discussion of any information requested that the SACCOS would have difficulty in providing and acceptable alternatives, if any, for these cases.
- (iv) Designation of a SACCOS contact person responsible for the coordination of the information in the request letter.
- (v) Description of how inspectors have been organized to focus on Governance & Administration, Credit & Collections Finance & Accounting and Operations and Market Conduct.
- (vi) Available staff to answer questions from the inspectors and expected turnaround times; and
- (vii) Names of key contact people, hours for work, use of equipment, etc.

3.2.4 Information needs and planning

- (i) Expected duration of the inspection, any planned interruptions (these should be kept to a minimum) inspector;
- (ii) Meetings with the internal and, if needed, external auditor and review of internal audit work papers.
- (iii) Meeting with Government Officers Supervising the inspected SACCOS.
- (iv) Regular meetings with the SACCOS manager to discuss the progress of the inspection and address any other issues of concern to the SACCOS manager; and
- (v) Planning for the exit meeting with the SACCOS senior management whereby inspection findings, the inspector's overall conclusions, and recommendations will be discussed.

3.3 Inspection Period

During the inspection period, inspectors should review the major areas of risk in a particular SACCOS. The analysis of the SACCOS financial and managerial performance will be completed utilizing the Capital, Asset quality, Management, Earnings and Liquidity (CAMEL) rating system.

CAMEL is an international standard for assessing financial and managerial performance in financial institutions. The CAMEL system has traditionally focused on prudential issues. In other countries, it has been adapted to also include market conduct issues which are fast emerging in importance.

Market conduct issues is a growing area of concern as increased competition drives in SACCOS may lead to less desirable practices to its members and other consumers. It is a leading area of concern because the failure of a single or small number of SACCOS could disrupt broader credit markets; whereas, prudential requirements regarding capital adequacy, liquidity, provisioning, earning and asset quality take on greater importance for SACCOS which collect voluntary savings.

CAMEL which stands for Capital adequacy, Asset quality, Management, Earnings and Liquidity is elaborated hereafter, for the purpose of this guideline:

Capital Adequacy evaluates the quantity and quality of capital in the particular SACCOS. Capital is the most important area in evaluating a particular SACCOS because it serves as the cushion against potential losses that the SACCOS may encounter. In SACCOS, the components of capital are retained earnings (the most stable and strongest form of capital), statutory reserves, year-to-date surpluses, donations to capital, and share capital. Together, these are measured against the total assets for the particular SACCOS. The capital level is an indicator of the sustainability of the organization.

S/N	CAPITAL ADEQUACY	Standard	1	2	3	4	5
1	Core Capital Ratio	≥8%	≥10%	9.9% – 8.0%	7.9% – 4.0%	3.9% – 1.0%	≤1%
2	Institutional Capital Ratio	≥6%	≥8%	7.9% -6.0%	5.9% - 3.0%	2.9% - 1.0%	≤1%
3	Net Institutional Capital	≥6%	≥8%	7.9% -6.0%	5.9% - 3.0%	2.9% - 1.0%	≤1%

Asset Quality evaluates the quality of the loan portfolio and the level of delinquency and loan restructuring. A review of the provision for loan losses is conducted and an analysis of the SACCOS practices writing off uncollectable loans (i.e., over 12 months delinquent). A review of delinquent loans to insiders and of the level of non-earning assets are completed. This schedule of provisioning should be in line with regulations regarding the aging, provisioning, write-off and reporting of non-performing loans. This is further detailed in the compliance table (Table 3.2) hereafter.

Table-3.1: Asset Quality Ratios and Benchmarks:

S/N	ASSET QUALITY	Standard	1	2	3	4	5
1	Non-Performing Loans(>30days)	≤5%	< 2%	2.0% – 2.9%	3.0% – 4.9%	5.0% – 7.9%	≥8%
2	Net loans Ratio	70%-80%	70%-80%	81% -89%	89.1% - 94.9%	95% - 99%	≥99.1 or ≤69.9%
3	Write off Ratio		<0.5%	0.5% - 0.9%	1.0% - 1.9%	2.0% - 2.9%	≥3%
4	Risk Coverage Ratio		>120%	120% -100%	99.9% - 80%	79.9% - 60.1%	≤60%
5	Non-Earning Assets (machinery or equipment Ratio)	≤10%	<10%	10.1% – 15%	15.1%-18%	18.1%-21%	>21.1%
6	Non-Earning Assets (land and building Ratio)	≤5%	<3%	3.0% - 4.9%	5.0% - 6.9%	7.0% - 9.0%	≥9%
7	Loan Rescheduling Ratio		<5%	5.0% - 6.9%	7.0% - 9.9%	10% - 14.9%	≥15%
8	Total savings and deposits	70%-80%	70%-80%	81% -89%	89.1% - 94.9%	95% - 99%	≥99.1 or ≤69.9%
9	External loan ratio	≤25%	≤20%	20.1%-23.9%	24.0%-26.9%	27.0%-29.9%	≥ 30%

Table-3.2: Asset Quality Formula and Interpretation:

RATIO	FORMULA	INTERPRETATION
Non-Performing Loans (NPL)	<p>This ratio is defined as Value of Outstanding Balances of all Loans in Arrears (all loans classified as substandard or worse i.e. NPL30days) divided by Gross Loans Outstanding</p> <p>NB: NPL can be calculated using different number of days in arrears e.g. 1 day, 30 days, 90 days etc. In SACCOS NPL30days, is the most common used and important portfolio quality indicator.</p>	Measures the portfolio quality and it indicates portfolio that is contaminated by arrears and therefore at risk of not being repaid. It reflects the true risk of delinquency problem in SACCOS.
Loan Rescheduling Ratio	This ratio is defined as Gross Outstanding Balance of Rescheduled Loans divided by Gross Outstanding Loan Portfolio	Compares the rescheduled portfolio with the total outstanding loan portfolio.
Risk Coverage Ratio	This ratio is defined as Loan Loss Reserve divided by Value of Outstanding Balance of Loans in arrears over 30days (i.e. PAR30days).	Measures the percentages of Non-performing loans covered by actual loan loss reserve. It indicates how a SACCOS is prepared for worst case scenario.
Write off Ratio	This ratio is defined as Value of Written off Loans divided by Average Gross Loan Portfolio.	Represents the loans that a SACCOS has removed from its books because of the

		substantial doubt that they will be recovered.
Non-Earning Assets (machinery or equipment)	This ratio is defined as Non-Earning Assets (machinery or equipment) divided by Total Assets	Represent the value of non-earning assets (machinery and equipment) owned by the SACCOS as compared to the value of its total assets.
Non-Earning Assets (land and building)	This ratio is defined as Non-Earning Assets (land and building) divided by Total Assets	Represent the value of non-earning assets (machinery and equipment) owned by the SACCOS as compared to the value of its total assets.
Net loans Ratio	This ratio is defined as loans net of provisions divided by Total Assets	Measures amount of net loans as disbursed to members as compared to total assets of the SACCOS
Total savings and deposits	This ratio is defined as savings and deposits divided by Total Assets	Measures amount of savings and deposits from members used to finance total assets of the SACCOS
External loan ratio	This ratio is defined as external borrowings divided by Total Assets	Measures amount of borrowed funds from external sources used to finance total assets of the SACCOS

Management evaluates the conduct of the board of directors, the credit committee, inspectory committee, technical committee and management. A review of the organization’s internal controls, external audit, regulatory compliance, anti-money laundering, IT security, back-up, and reliability of the information technology systems and the overall financial, reputation and operational risks is completed. Within SACCOS issues related to the protection of financial consumers are taking on a greater role. By incorporating market conduct issues into on-site inspections TCDC will be in a better position to complete its primary mission of protecting consumers. The goal is to strike an appropriate balance between growing member base, assets (e.g. loan) and outreach versus health of the SACCOS – keeping in mind that the poor can save and repay.

Management of a SACOS is rated based on, but not limited, to an assessment of the following evaluation factors:

- (i) The quality of board and management to oversee and support SACCOS activities.
- (ii) The ability of the board and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the initiation of new activities or products.
- (iii) The adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities.
- (iv) The accuracy, timeliness, and effectiveness of management information and risk monitoring systems appropriate for the SACCOS’s size, complexity, and risk profile.
- (v) The adequacy of audits and internal controls to: promote effective operations and reliable financial and regulatory reporting; safeguard assets; and ensure compliance with laws, regulations, and internal policies.
- (vi) Compliance with laws and regulations.

- (vii) Responsiveness to recommendations from auditors and inspectory authorities.
- (viii) Management succession.
- (ix) The extent that the board members and management is affected by, or susceptible to, dominant influence or concentration of authority.
- (x) Reasonableness of compensation policies and avoidance of insider-dealing.
- (xi) Demonstrated willingness to serve the SACCOS needs of the members.
- (xii) The overall performance of the SACCOS and its risk profile.

Earnings—evaluates SACCOS current earnings and historical trends of earnings and expenses. A review of the efficiency of the SACCOS operations, its earnings on loan and investment portfolios and the gross margin is completed. The key components of revenues and expenses need to be analysed, including the level of operational efficiency, as well as the overall results as measured by return on equity (ROE) and return on assets (ROA).

Table 3.3: Earnings Ratios and Benchmarks:

S/N	EARNINGS (ANNUALIZED)	Standard	1	2	3	4	5
1	Operating Expenses / Gross Income	≤85%	≤85%	85.1% - 88%	88.1% - 90%	90.1% - 94.9%	> 95%
2	Net Income before donations / Total Average Assets (ROA)	>2% and enough to meet C1	>2%	1.9% - 1%	0.9% - .5%	0.49% - 0.0%	<0%
3	Net Income/ Average Total Equity (ROE)		>15%	10% - 15%	5% - 9.9%	0.1% - 4.9%	≤0%
4	Operating Expenses / Average Total Assets	≤10%	≤ 10% or =	10.1% - 14.9%	15% - 19.9%	20% - 24.9%	>25%

Table-3.4: Earnings Ratios Formula and Interpretation:

RATIO	FORMULA	INTERPRETATION
Operating Expenses / Gross Income	This ratio is defined as Operating expenses divided by Gross Income of the SACCOS	Indicates whether enough revenues have been earned to cover all of the SACCOS's direct costs.
Return on Average Assets (ROA)	This ratio is defined as Net Income before donations divided by Total Average Assets	This is intended to measure SACCOS efficiency in using its assets.
Return on Equity (ROE)	This ratio is defined as Value of Net Income divided by Average Total Equity.	Measures the rate of return earned on the SACCOS' invested equity.
Operating Expenses / Average Total Assets	This ratio is defined as Operating Expenses divided by Average Total Assets	Measure how much a SACCOS spent to maintain its assets over a financial year. It Indicates how efficient the SACCOS in utilizing its assets.

Liquidity—evaluates the ability of the SACCOS to meet the immediate demands of its members’ withdrawals. A review of a SACCOS ability to fund its loan portfolio, cover the clearing and settlement of payments and how efficiently it is allocating its assets is also completed.

Table 3.5: Liquidity Ratios and Benchmarks:

S/N	LIQUIDITY	Standard	1	2	3	4	5
1	Liquid Assets / Savings Deposits & Short-Term Liabilities	≥15%	≥18%	17.9 %-15%	14.9%-12.0%	11.9%-8.0%	<8%
2	Non-Earning Liquid Assets / Total Average Assets	<5%	<3%	3.1-6.9%	7.0%-10.9%	11.0%-13%	>13.1%
3	Net Loans / Total Savings and Deposits	70%-80%	70%-80%	81% -89%	89.1% - 94.9%	95% - 99%	≥99.1 or ≤69.9%

Table-3.6: Liquidity Ratios Formula and Interpretation:

RATIO	FORMULA	INTERPRETATION
Liquid Assets Ratio	This ratio is defined as liquid assets divided by saving, deposits & short-term liabilities	This is intended to capture the liquidity mismatch of assets and liabilities, and provides an indication of the extent to which SACCOS could meet short term obligations without facing liquidity problems
Non- Liquid Assets Ratio	This ratio is defined as Non-liquid assets divided by Total Average Assets	This is intended to determine the level of liquid assets owned by the SACCOS to meet short term obligations as they fall due.
Net Loans / Total Savings and Deposits	This ratio is defined as Net loans divided by saving and deposits.	Measures the rate of savings and deposits used to fund loans.

TABLE 3.2: COMPLIANCE WITH REGULATIONS

Legislative / Regulatory Requirement or Provision	Minimum Requirement As per the Microfinance Regulation	SACCOS Compliance Status Yes/No/NA
Capital		
Minimum paid up core capital for category A license	≥10 million Shillings	
Minimum paid up core capital for category B license	≥200 million Shillings	

Asset Quality		
Loan Loss Provisions	<ul style="list-style-type: none"> ▪ Current loans 0-30 days = No provision ▪ Watch loans, especially mentioned, 31-90 days = 10% ▪ Sub-standard loans, 91-180 days =30% ▪ Doubtful loans, 181-365 days =50% ▪ 365+ days o = 100% <p>Rescheduled loans must be paying fully on time for 4 consecutive instalments before being reclassified as performing loans.</p>	
Management		
Permissible services		
Expansion authorization		
Required Records		
Internal Audit		
Lending Requirements		
Maximum loan size		
Source of funds restrictions		
Digital financial Services		
Equity Financing		
Customer Redress Mechanism		
Anti-money laundering		
Consumer protection disclosures		
Maximum loan maturity period	5 years	
Disclosure of Changes		

3.4 Inspection Questionnaires & Procedures

As a complimentary tool to this manual, 15 worksheets have been developed for use by Inspectors. These worksheets include both questionnaires that can be included in on-site inspections and work papers to review and reconcile areas. Usage of these worksheets will also aid in generating an exception report and developing the final report from the inspection. To ensure consistency among

inspections of various SACCOS, a full scope inspection requires the use of all 15 worksheets. ***Not all the questions in the worksheets must be asked, but rather these are provided to help trigger questions and aid new inspectors in understanding the areas to review.*** These worksheets are included in the Appendix 3 of this manual and follow the CAMEL focus areas. Below is a summary description of these worksheets and their contents.

Verify Reports – Refer to Worksheet 1 (Appendix 3)

The data on monthly reports that is given to the TCDC must be verified by inspectors during on-site reviews.

Capital—Refer to Worksheet 2

The quantity and quality of capital is the single largest determinant in judging the health and solvency of a financial institution. The SACCOS must maintain 10% of core capital to total assets. Core capital includes fully paid up membership shares, statutory reserve fund, retained earnings, capital grants and donations that are not in transitory in nature and are not meant to be paid out unless on liquidation of a SACCOS. As part of the capital adequacy test, any deficiencies in loan loss provisions must be subtracted from the capital base on considering adherence to the standard.² Particular focus should be on the adequacy of the SACCOS capital as this determines a SACCOS ability to withstand business cycles and losses.

Inspectors must ensure that new or undercapitalized SACCOS put surpluses into reserves as opposed to paying dividends or interest rebates. Inspectors must utilize the capital worksheet in Appendix 3.

Inspection Procedures for Capital

The inspector will evaluate the propriety and consistency of the SACCOS present and planned level of capitalization in light of existing conditions and future plans. In this regard, the inspector will:

- a. Analyze applicable ratios involving capital funds, comparing them with those of other comparative SACCOS and investigating trends or significant variations from group averages.
- b. Determine that capital is sufficient to compensate for any instabilities or deficiencies in asset and liability mix.
- c. Determine if the SACCOS earnings performance enables it to fund its expansion adequately, to remain competitive in the market, and to replenish and/or increase its capital funds as needed.
- d. Analyze the SACCOS present and projected deposits and borrowed fund's structure to determine if the present and projected capital is sufficient to maintain depositor and lender confidence.
- e. If the reserve for loan losses is determined to be inadequate, analyze the impact of current and potential losses on the SACCOS capital structure.
- f. Determine if shortcomings in internal controls and audit procedures will make the SACCOS more susceptible to loss through fraud and defalcation and thereby weaken the capital base.

² This is just the testing procedure. To actually increase the loan loss reserve account on the balance, an expense to credit loan loss provisions must first be done via the income statement.

- g. Consider the impact of any management deficiencies on present and projected capital adequacy.
- h. Determine that there are no “other assets” or contingent accounts whose quality represents an actual, or potential, negative impact on capital.

Ensure that entries to capital funds are limited to:

- a. Increase or decreases in retained earnings or losses.
- b. Increases or decreases due to member’s shares
- c. Increases due to donations received
- d. Decreases due to allocation of donations to expenses
- e. Profit/loss for the period.
- f. Increases or decreases due to mergers.
- g. Extraordinary items not normally included in the income and expense account (such items are expected to be rare eg.).
- h. Authorized transfers to, or from, reserve accounts.
- i. Adjustments for investments beyond regulatory thresholds taken through the income statement
- j. Adjustments for provisions for loan loans taken through the income statement.

- 1. Note adequacy of present and projected capital.
- 2. Prepare comments for the inspection report on the SACCOS capital levels, and include any deficiencies reviewed with management and any remedial action recommended.
- 3. Include in the final inspection report required actions and timeframe for required actions from the SACCOS with any information which will facilitate future inspections.

Asset Quality—Refer to Worksheets 3 – 5

The loan portfolio is generally the single largest and most important revenue-producing asset in a SACCOS. It is important to thoroughly review and assess the asset quality, including the loan portfolio policies, delinquent loans, insider loans, and concentration risks. The objectives of the loan review are to:

- reassess the borrower’s financial condition, resources, and ability to repay the loan in full
- Preview the procedures used to issue loans in relation to the requirement of lending policy of the SACCOS
- collateral management adequacy including perfection of security
- review the adequacy of the financial support that can be provided to the borrower by the co-signers or guarantors
- evaluate the impact of the current economic and market conditions on the borrowers
- Recommend specific actions that allow the SACCOS to better manage risk. For example, request for additional collateral, amend the payment schedule, and suggest legal action to collect the loan or take possession of the collateral for sale.
- Maximum loan limits as per the Regulation

The inspectors shall determine the adequacy of the provision for the allowance for loan losses. This account should provide for all loans that have been “classified” problematic as required by Microfinance regulations.

To determine the adequacy of the loan loss account, the inspector shall obtain the most current delinquent loan list and a list of all other problem loans that are not on the delinquency list such as restructured loans that are paid currently. Management should already have determined the amount needed in the loan loss account. If management has not determined the adequacy of the loan loss account this should be mentioned in the inspector’s findings. The inspector shall perform the calculation to determine if the provision is under or over the requirement. The inspector must review the management’s calculations in determining the adequacy of provisioning.

Complete Loan Administration in Appendix 3 to review at least 10 largest loans (depending on the nature and hugeness) and review of accounts of related parties to Board members and staff. Other assets that need to be reviewed include fixed assets, investments and cash.

Inspection Procedures for Asset Quality

Validation of loans’ classification

It is of critical importance to validate the capacity of the SACCOS to generate timely and correct information for risk monitoring and decision-making, including:

- i) Reports on portfolio at risk at institutional level and also per branch, per product, per loan officer and even per employer,
- ii) A classification of loans according to SACCOS Micro-Finance Regulations 2019,
- iii) Computation and timely booking of the loan loss provisions,
- iv) Monitoring and control by head office of any loan rescheduling and/or refinancing.

SACCOS loans should be classified on a daily basis, with the use of a computerized loan tracking system, capable of daily monitoring of the status of loan disbursements, collection and arrears, income accruals and any loan restructuring. Under SACCOS Microfinance Regulations 2019, the following regime applies:

Classification	Days in Arrears	Provisions
Current	0-30 days	0%
Especially mention	31 to 90 days	10%
Substandard	91 to 180 days	30%
Doubtful	181 to 365 days	50%
Loss	More than 360 days	100%

Arrears of loans with irregular repayment schedules should be verified through an ad-hoc computation or on a sampling basis.

Management—Worksheets 6-11

To assess management, five questionnaires are provided to cover accounting reconciliation and management red-flag areas, provisions for loan losses, an assessment of internal controls including cash handling and teller operations, a review of adequacy and controls of management information systems, and anti-money laundering controls. The management review area should include an analysis

of the external audit and the work of the internal auditor or inspectory committee, the budget, and the policies and procedures, and a review of the board's effectiveness. The cash and internal control worksheets will assist with treasurer and teller drawer cash counts and reconciliation of subsidiary ledgers.

Earnings—Worksheet 12 – 13

Analysis of the SACCOS rates, margins, operating costs, and earnings are completed in this section. The key focus should be on the earning trends of the SACCOS over the past four quarters and its potential for future earnings. Given that most SACCOS have limited ability to raise outside capital, it is imperative that their earnings are sufficient to increase capital so that capital growth keeps pace with asset growth and provides for a safe institution. This should include a review of the return on assets, operating efficient measures as operating expenses over gross income, operating expenses over average assets, cost of funds (interest paid on deposits or borrowings/average assets), yield on assets (financial income/average assets), financial margin (yield on assets less cost of funds) and non-earning assets as a percentage of average assets.

Liquidity—Worksheet 14 – 15

In line with Microfinance SACCOS regulations, 2019, SACCOS must maintain liquid assets of at least 15% of their savings deposits and short-term liabilities. These assets must be of high quality and the preservation of the principal that is readily accessible must be the chief consideration for purchasing liquid assets. Too much liquidity affects a SACCOS ability to generate sufficient earnings from its loan portfolio and too little liquidity places the SACCOS at risk of not being able to meet depositor's demands and/or the clearing of payments. This analysis includes investment policies, deposits and borrowings. As SACCOS grow, the composition and structure of their balance sheets change which can affect their ability to generate sufficient income.

The worksheets will assist with reconciling the SACCOS account(s) at the bank(s) with its own records and reviewing atleast 10 largest deposits (depending on risk perspective too) account holders and the stability of these deposits.

3.5 Final Days of the Inspection

The Team Leader/Cooperative Inspector should meet with the full inspection team together or individually to receive their verbal and draft written reports. The team should discuss the overall findings and current gaps in their analysis. Each member of the team must provide the Team Leader with a written report of their areas reviewed, findings of weakness and the SACCOS non-adherence to policies, loans that deviate from the credit policy and plans of action for how the SACCOS should correct the weaknesses.

Formulate Conclusions and Composite Rating

The Team Leader with input from the team must formulate a summary opinion of the SACCOS as a result of the Inspection. The opinion must be backed up with data that has been verified and there must be a consistent framework for inspectors to reach such decisions.

The development of substantive overall conclusions involves:

- Reviewing major findings from the inspection (including trends).
- Considering the SACCOS operating environment (both internal and external factors).
- Development of a comprehensive plan of action(s) including prioritization of actions.

The CAMEL rating tool/ ratios should be completed as well as ratings per section and an overall rating.

There are both objective and subjective factors involved in a comprehensive analysis of the SACCOS present and expected future condition. The inspector must weigh the significance of criticisms, deficiencies, and exceptions to offset strengths. This requires reviewing CAMEL comments and other findings for interrelationships. Whenever a practice or other factor materially affects safety and soundness, the inspector must look at both the present and potential future effects. Consider the following when evaluating the SACCOS present condition:

- Inspectors' findings, including CAMEL comments and ratings, trends, patterns, exceptions, and other observations.
- Patterns of regulatory noncompliance, deficient procedures, and other factors causing noncompliance.
- Interrelationships between findings noted for each CAMEL component.
- Effectiveness of the corrective actions initiated to resolve earlier deficiencies noted at previous inspections.

3.6 CAMEL Rating System

The financial analysis function performed by the inspector includes an in-depth assessment of the SACCOS financial and operating results, through the balance sheet and income statement. The CAMEL rating framework is an internationally accepted methodology for analyzing SACCOS financial and prudential performance. This rating system is designed to consider and reflect all significant financial and operational factors that inspector assess in their evaluation of a SACCOS performance. SACCOS are rated using a combination of financial ratios and the inspectors judgement.

An overall composite rating will be assigned to SACCOS based on the critical areas reviewed. Each component of CAMEL will be assigned a rating of 1 to 5, with 1 being the highest (best) rating and 5 being the lowest (worst). The composite CAMEL rating is an indicator of the viability of a SACCOS. Inspectors will use professional judgment and consider both qualitative and quantitative factors when analyzing a SACCOS overall performance.

The key ratios alone do not determine the overall CAMEL rating. Inspectors must look behind the numbers to determine the significance of supporting ratios and trends over time to determine directional changes.

Lower-rated SACCOS (Code 3, 4, and 5) require greater on-site inspection and off-site monitoring and thus greater attention from inspectors. Conversely, higher-rated SACCOS (Codes 1 and 2) require less attention and can have Inspections scheduled according to Table 1.

Inspectors have the discretion to increase or decrease any rating with plus or minus but within the corresponding range of the average. The rationale for such increase or decrease will need to be supported with documentation. The following are the most important quantitative and qualitative measurements that inspectors review and analyze before assigning a component rating. However, inspectors should not limit their analyses to these measurements when conditions warrant further review. Inspectors should also bear in mind each SACCOS uniqueness, differences in member areas served, demographics, sponsor support, organizational goals, local competition, and other economic conditions which affect a SACCOS performance.

Although the individual composite rating should normally bear a close relationship to the component ratings, the inspector will not derive the composite rating merely by computing an arithmetic average of the component ratings. The following guidance is given for component ratings:

TABLE 3 – GUIDE TO ASSIGNING RATINGS FOR CAMEL RATIOS

CAMEL RATIO	AREA TO MEASURE	Requirement/Goal	1	2	3	4	5
C	Capital Adequacy						
1*	Core capital / Total Assets	Minimum 8%	> = 8%	7.9%-7%	6.9%-4%	3.9% - 2%	<=1.9%
2	Institutional capital / Total Assets	Minimum 6%	> = 6%	5.9%-5%	4.9%-3%	2.9% - 1%	<=0.9%
	Net Institutional capital/ Total Asset	Minimum 6%	> = 6%	5.9%-5%	4.9%-3%	2.9% - 1%	<=0.9%
A	ASSET QUALITY						
1*	Non-Performing Loans / Gross Loan Portfolio	Less Than or Equal to 5%	< 5%	5.1% - 6%	6.1% - 8%	8.1% - 10%	>10.1%
2	Non-Earning Assets / Total Assets	Less Than or Equal to 10%	<10%	10.1% – 15%	15.1%-18%	18.1%-21%	>21.1%
3	General Loan Loss Reserve /Gross Loans	1%	>1%	1% - 0.75%	0.75%-0.50%	0.5%-0.25%	<0.25%
4	Write offs less recoveries/ Total Loans	<1.5%	<1.5%	1.6%-2.0%	2.1%-2.5%	2.6% -3.5%	>3.6%
M	MANAGEMENT		1	2	3	4	5
1	Are loans to Board, staff and related parties more than 10% of core capital?	Yes/No					
2	Has any fraud or misappropriation of funds occurred?	Yes/No					

3	Do any board members or senior staff have non-performing loans?	Yes/ No					
4	Annualized Member Growth	>15%	>= 15%	10%-14.9%	9.9%-6%	5.9% - 4%	<=3.9%
5	Annualized Deposit Growth	>15%	>= 15%	10%-14.9%	9.9%-6%	5.9% - 4%	<=3.9%
E	EARNINGS (ANNUALIZED)		1	2	3	4	5
1*	Operating Expenses / Gross Income	≤85%	≤85%	85.1% - 88%	88.1% - 90%	90.1% - 94.9%	> 95%
2	Net Income before donations / Total Average Assets (ROA)	>2% and enough to meet C1	>2%	1.9% - 1%	0.9% - .5%	0.49% - 0.0%	<0%
3*	Operating Expenses / Average Total Assets	≤10%	≤ or= 10%	10.1% - 14.9%	15% - 19.9%	20% - 24.9%	>25%
L	LIQUIDITY						
1*	Liquid Assets / Savings Deposits & Short-Term Liabilities	Minimum 15%	15% or >	14.9%-12%	11.9%-8%	7.9%-5%	<4.9%
2	Non-Earning Liquid Assets / Total Average Assets	Less than 5%	5%	5.1-8%	8.1%-10%	10.1%-12%	>12.1%
3*	Net Loans / Total Savings and Deposits	70%-80%	<90%	91%-95%	96%-100%	100%-105%	>105%

3.7 Assigning a CAMEL Rating

Capital Adequacy

- **A rating of 1** is accorded to SACCOS that maintain a level of capital commensurate with the standards at 10%.
- **A rating of 2** indicates that the SACCOS financial structure is not of concern, with only minor adjustments necessary. The capital ratio is below 10% but still is sufficient so that the organization can absorb normal business cycle losses.
- **A rating of 3** indicates the SACCOS has an inadequate level of capital due to various factors. These factors may include loan losses or fluctuations in the business cycle. Such SACCOS normally exhibit more than ordinary levels of risk in some significant segments of their operation. There may be risks that could affect the SACCOS ability to maintain the minimum recommended capital levels.
- **A rating of 4** indicates that a significant deterioration in performance is very likely for SACCOS rated 4 and inevitable for SACCOS rated 5. The capital is significantly below the regulatory requirement.
- **A rating of 5** is appropriate for a SACCOS with an extreme risk exposure or capital position so critical as to constitute an imminent threat to the SACCOS continued viability.

Asset Quality

Inspectors use three key ratios to help determine the soundness of the SACCOS assets and evaluate asset quality, namely non-performing loans/total assets, total non-earning assets/total assets and loan write offs/total loans. In addition, a review of the loan loss reserve, provisions for non-performing loans or investments and write offs of non-recoverable loans is needed.

- **A rating of 1** reflects high asset quality and minimal portfolio risks. In addition, the SACCOS has written lending and investment policies and procedures conducive to safe and sound

operations, which it follows. The SACCOS does not have excessive funds in accounts that are not earning market interest rates.

- **A rating of 2** denotes high-quality assets although the SACCOS has a greater level and severity of classified assets than does an institution rated 1. SACCOS with a 1 or 2 rating generally exhibit stable and positive trends and can absorb any present or anticipated losses in the allowance for loan loss account. Additionally, there should be no significant asset quality problems. There may be evidence that the SACCOS is not fully maximizing its earnings potential by having too much liquidity in non-interest-bearing accounts.
- **A rating of 3** indicates a real degree of concern based on either current or anticipated asset quality problems. SACCOS in this category may have only a moderate level of problems assets, but may experience negative trends. These deficiencies could be from poor loan underwriting, a lack of provisions, poor documentation, higher risk investments, inadequate lending and/or investment controls. Monitoring of these weaknesses and problem assets should occur.
- **A rating of 4** represents increasingly severe asset quality problems that will threaten the institution's viability if left uncorrected. Inspectors should also assign a rating of 4 to SACCOS with moderately severe levels of classified assets combined with other significant problems such as inadequate valuation allowances, high-risk concentration, or poor underwriting, documentation, collection practices, and high-risk investments. The SACCOS is under-provisioned.
- **A rating of 5** indicates that the SACCOS viability has deteriorated due to the corrosive effect of its asset quality and provisions are insufficient to cover this deterioration.

Management

The management rating reflects the performance of the entire management team of the SACCOS. This includes the Board of directors and all levels of management. The rating is an assessment of management's overall effectiveness, internal controls, and the management information systems in place. While the focus of inspectors should be on the financial soundness of the SACCOS, an understanding of the member's engagement and participation in the SACCOS can aid in understanding the overall sustainability of the SACCOS.

The inspector should base the assessment of management on a historical, current, and prospective evaluation of management's effectiveness in addressing problems the SACCOS encounters. Since financial performance is the primary indicator of the viability of a SACCOS, the SACCOS financial performance will strongly influence the management rating.

The Board of directors has three basic responsibilities:

- select and hire an effective Chief Executive Officer and senior managers for the SACCOS.
- establish objectives and policies appropriate for the SACCOS.
- Provide oversight to the operations of the SACCOS through reports provided by the management.

The Board of directors are responsible for ensuring that management effectively implements these policies and initiates corrective action, when necessary, to ensure adequate management control and results.

The inspector must be keenly aware of unsafe and unsound practices such as self-dealing that result in unofficial compensation to management or directors. Self-dealing may result from actions undertaken directly by management or the board of directors or by their agents. Business dealings with insiders should be for the benefit of the SACCOS and on terms substantially the same as those with third parties. For the purpose of this guideline, rating category is defined as follows; -

- **A rating of 1** indicates the SACCOS is very well managed and governed. It is meeting most of the financial performance criteria (including all of the core areas of capital, delinquency, return on assets and liquidity). There are strong internal controls and very good systems in place.
- **A rating of 2** indicates the SACCOS is well managed and good controls are in place. The SACCOS has generally strong financial performance but one or two areas might be slightly below the standard. There is a generally a strong management team in place.
- **A rating of 3** indicates that the management of the SACCOS is adequate. SACCOS in this category exhibit a combination of financial, operational, or compliance weaknesses ranging from moderately severe to less than adequate. Overall strength and financial capacity, however, are still such as to make failure only a remote possibility.
- **A rating of 4** indicates the SACCOS has poor management and serious weaknesses exist. There are problems in several areas that are not addressed by the SACCOS management. The SACCOS may characterize erratic fluctuations in growth in either assets or members, or a non-implemented or non-existent business plan. Management needs to make a concerted effort to turn around the operation or the viability of the SACCOS may be in question.
- **A rating of 5** indicates the SACCOS has very weak management and that material weaknesses are not being addressed by management despite its awareness of them. There may be serious internal control and/or information technology gaps.

Earnings

- **A rating of 1** indicates the SACCOS generates sufficient current and projected earnings to fully provide for loss absorption and institutional capital formation with due consideration for asset quality, growth, and earnings trends.
- **A rating of 2** indicates the SACCOS has positive and relatively stable earnings and has an adequate level of earnings in view of asset quality and operating risks. The inspector considers other factors, such as earnings quality and trends.
- **A 3 rating** indicates current and projected earnings are not fully sufficient to provide for the absorption of losses and the formation of institutional capital to meet and maintain compliance with regulatory requirements. Inconsistent earnings trends, chronically insufficient earnings, or less than satisfactory performance on assets may hinder earnings.

- **A rating of 4** indicates there may be: negative fluctuations in net income, the development of a severe downward trend in income, or a substantial drop in earnings from the previous period relative to its peers, and the inspector anticipates a drop in projected earnings. The inspector should consider all other relevant quantitative and qualitative measures to determine if a 4 is the appropriate rating.
- **A rating of 5** indicates that the SACCOS is experiencing consistent losses. Such losses represent a distinct threat to the SACCOS solvency through the erosion of institutional capital. Inspectors assign a 5 rating to SACCOS unprofitable to the point that the SACCOS will deplete its institutional capital within twelve (12) months or less.

Liquidity

The evaluation of liquidity is importance for SACCOS. The liquidity indicators show whether the SACCOS is administering its cash so that it can meet members' deposits, and loan needs while minimizing the amount of idle funds that earn no economic return.

- **A rating of 1** should be accorded when the SACCOS is complying with the regulatory liquidity reserve requirement of 15%. In addition, the SACCOS prepares a comprehensive cash flow projection that includes cash inflows from loan repayment and other sources as well as outflows for loans and other expenses. The asset and liability mix is organized to maximize the earnings of the operation and meet the member's financial needs and the SACCOS at large.
- **A rating of 2** indicates that the SACCOS does not fully comply with the liquidity reserve requirements. Interest rate risk is sufficiently managed but potential problems and or a decreasing liquidity below the regulatory standard exist. Liquidity problems are only a remote concern.
- **A rating of 3** should be accorded to SACCOS which are not monitoring their liquidity on a regular basis or haven't complied with the statutory reserve requirement. There is usually evidence of too much or not enough liquidity available to meet the member's demands for withdrawal and loans. Management does not demonstrate an acceptable capacity to measure and manage interest rate risk.
- **A rating of 4** is generally characterized by erratic fluctuations in liquidity and non-compliance in the liquidity reserve requirements. The SACCOS exhibits an unacceptably high exposure to liquidity risk based on the financial structure of its deposits.
- **A rating of 5** is assigned to SACCOS which are experiencing consistent liquidity problems and/or non-compliance with the liquidity reserve requirements. The illiquid position represents a distinct threat to the SACCOS viability due to members leaving the SACCOS because of its illiquid position.

3.8 Assignment of the Composite Rating

After the inspection process, and once each CAMEL component is rated, the inspectors should assign a composite rating based on the assessment of its overall condition and level of inspectory concern. The inspector should pay particular attention to the rating of management's effectiveness.

Composite Ratings

The composite rating is both a quantitative and qualitative assessment of the SACCOS condition and the overall level of inspectory concern. Although the composite rating assigned to the SACCOS should have a close relationship to the individual CAMEL component ratings, it is not derived by computing an arithmetic average of the component ratings. Such a simplistic, mechanical approach will not reflect the true condition of the SACCOS; nor will it indicate the appropriate inspectory actions.

Following are general definitions the inspector will use for assigning the SACCOS a composite rating under CAMEL. Table 3 above provides the summary CAMEL composite matrix that a inspector can utilize to document the rating. Inspectors will have the optional use of assigning plus (+) or (-) ratings to signify improving or declining trends.

Composite 1

SACCOS in this group are very strong in every aspect; any inspection findings or comments are of a minor nature and can be handled in a routine manner. Such SACCOS are resistant to external economic and financial disturbances and more capable of withstanding the vagaries of business conditions than SACCOS with lower ratings. As a result, such SACCOS give no cause for y concern.

Composite 2

SACCOS in this group are strong in most aspects but may reflect modest weaknesses correctable in the normal course of business. The nature and severity of deficiencies, however, are not considered material and, therefore, such SACCOS are stable and able to withstand business fluctuations quite well. While areas of weakness could develop into conditions of greater concern, the y response is limited to the extent that minor adjustments are resolved in the normal course of business, and operations continue satisfactorily.

Composite 3

SACCOS in this category are satisfactory but exhibit a combination of financial, operational, or compliance weaknesses ranging from moderately severe to less than adequate. If these weaknesses are related to financial condition, such SACCOS may be vulnerable to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting the areas of weakness. SACCOS that are in significant noncompliance with laws, regulations, or prudential norms may also garner this rating. Generally, these SACCOS require additional supervision to address deficiencies. Overall strength and financial capacity, however, are still such as to make failure only a remote possibility.

Composite 4

SACCOS in this group have significant financial weaknesses or a combination of other conditions that are inadequate. Major and serious problems, or unsafe and unsound conditions may exist which have not been satisfactorily addressed or resolved. Unless effective action is taken to correct these conditions, they could reasonably develop into a situation that could impair future viability and constitute a threat to the interests of depositors. A higher potential for failure is present but is not yet imminent or pronounced. SACCOS in this category require close y attention and financial surveillance, and a definitive plan for corrective action.

Composite 5

This category is reserved for SACCOS with an extremely high immediate or near-term probability of failure or insolvency. The condition of the SACCOS is considered critical. The volume and severity of weaknesses or unsafe and unsound conditions are so critical as to require urgent recapitalization from members. In the absence of urgent and decisive corrective measures, these situations will likely require liquidation or some other form of emergency assistance, merger, or acquisition.

Summary of Composite rating with SACCOS categorization grades

After off-site and On-site inspection, TCDC will rate and grade the performance of SACCOS based on the composite rate scored by the SACCOS in all five parameter of CAMEL ratio in order to rank, mark and understanding the number of SACCOS performing better in the market. The following table illustrate the composite rate score level and the inspectors will use grades marked during the assignment of off-site and on-site inspection.

S/N	Composite rate Scored	Grade ranked
1	Composite rate level 1	A
2	Composite rate Level 2	B
3	Composite rate level 3	C
4	Composite rate level 4	D
5	Composite rate level 5	E

3.9 Implementing CAMEL Ratings

In conclusion, the rating of a SACCOS based on the CAMEL system requires the inspectors to use both quantitative and qualitative analyses. A SACCOS overall performance cannot be assessed solely from its financial performance. An analysis of the CAMEL factors must be performed using risk/reward trade-offs, management philosophies, management experience and expertise, and other external factors such as the political climate and business conditions. If the inspectors follow and utilize the procedures contained in this manual, then the rating will be supported and documented in a comprehensive manner. When assigning a rating, inspectors should consider the consistency of the rating across SACCOS and the maintenance/updating of a rating.

Consistency in CAMEL Rating Assignments

It is essential that TCDC applies CAMEL ratings on a consistent basis. Inconsistencies in assigning CAMEL component or composite ratings may result in confusion and degrade the integrity of the inspectory process. When TCDC consistently applies CAMEL ratings, the comparison between the previous inspection and the most recent inspection can accurately describe the condition of a SACCOS. To ensure consistency in the CAMEL rating process, inspectors must have a thorough understanding of the criteria to assign the different CAMEL component and composite ratings. For general consistency with the banking sector, the

requirements for assessing a composite score for SACCOS are substantially similar to those for banks, recognizing the variances among institutions.

Maintaining and Updating the CAMEL Ratings

It is also essential that on-site and off-site staff monitor new developments for each SACCOS and update the ratings so that the rating is always a current indicator of the SACCOS condition. Maintaining these ratings requires periodic monitoring with an emphasis on the criteria supporting the CAMEL ratings for the SACCOS. For this reason, it is imperative that the assignment of a CAMEL rating is properly documented.

Deterioration or significant changes in the SACCOS operations or condition may indicate a need for some special y attention. y attention may include a telephone inquiry followed by written request or written request for additional information, a limited scope inspection, or a full scope inspection. Any changes in the criteria that support the current ratings or any new developments may require a change in the CAMEL rating and the associated y actions (i.e., additional monitoring or visits, a plan for recapitalization, changes in management or board, merger, or liquidation).

3.10 Last Day of the Inspection

Exit Meetings with the SACCOS Management

After each on-site inspection, a post-inspection meeting must be held with the SACCOS management and board.

The purpose of this meeting is to discuss the inspection findings and plans of action to ensure that the inspectors' conclusions are correct and accurate, to elicit management's comments regarding the report, and to answer any other questions posed by the SACCOS management. This meeting should provide the inspector with the opportunity to discuss the SACCOS strengths and weaknesses and to discuss preliminary recommendations for corrective actions.

The Team Leader shall disclose composite and component ratings at the exit meeting with the SACCOS senior management. The inspector should obtain sufficient concurrence with the ratings from TCDC's management; however, the inspector should indicate the ratings are preliminary in nature, are subject to further review, and are not final.

Inspectors should discuss with the SACCOS management the criteria they considered in assigning each component rating as well as the overall composite rating. Inspectors should indicate that the composite rating is based on a careful evaluation of the SACCOS managerial, operational, and financial performance, and compliance with laws and regulations. The inspectors should clarify that they did *not* base the composite rating on an arithmetic average of the components, but on a *qualitative analysis* of the criteria comprising each component, the interrelationship between components, and, more importantly, the overall level of inspectory concern.

The quality of management is one of the single most important elements in the successful operation of a SACCOS and is usually the factor that is most indicative of how well the SACCOS performs. For this reason, the inspector should take sufficient time to explain to senior management and the board of directors, the criteria considered in assigning the management component rating, and the meaning of the rating. The written comments in support of the management rating should include an assessment of the effectiveness of existing processes to identify, measure, monitor, and control risk. Finally, the

inspector should remind management that the composite and component ratings disclosed in the inspector's report remain subject to the confidentiality rules imposed by the TCDC.

The Team Leader should finish the exit meeting by summarizing the tentative findings and seek to obtain consensus from officials for correcting all the problems identified and ensuring that the problems will not remain in the future. **Minutes should be taken of the exit meeting.** The minutes of the exit meeting should record agreements, disagreements, and if any promises are made. This information can be included in the final report and the presentation of the final report to the Board of the SACCOS.

In the final report inspectors should clearly specify all agreements, understandings, and target dates and should clearly communicate corrective actions that should be taken and will be documented in the final inspection report and that the rationale for findings and timeframes for actions are understood by management.

CHAPTER FOUR

REVIEW OF REPORT AND RECORDS OF INSPECTION

To ensure that the inspection is performed in compliance with this guideline, laws, and regulations. The inspection report and list of weaknesses will be faithfully representing the results of the inspection. The following should be taken into consideration.

- a) Review the report of current off-site, last inspection, last external audit and follow-up actions to be taken by the SACCOS in these documents.
- b) Review the inspection worksheets and include any weakness in the report and give priority to the actions needed.
- c) Consider, if necessary, the evaluations and assessments of areas not previously examined.
- d) Ensure clarity in the final inspection report by:
 - Having consistency between the executive summary and the recommendations of the inspection report with the findings that appear in full report.
 - Ensuring the inspection report is supported adequately by the evaluations and assessments in each of the components of the on-site inspection.
 - Aligning standards by TCDC with the drafting of the inspection report and the list of the deficiencies and the quality report.
- e) The Team Leader should ensure that paperwork has been documented and that substantial findings are correct and have sufficient evidence to support their inclusion in the final report.

9. Conclusion of the Team Leader

The different work carried out within the framework on the revision of this inspection file, allows the Team Leader to conclude that the dossier of inspection, the inspection report and the list of gaps are of quality and meet the standards of the TCDC.

Date:	Signature of the Team Leader and Inspection Team Members:

Section A. Conduct Post Review Activities

Peer Review Work and Finalization of the Inspection Report

Once the inspection team has finalized and signed off the report, the report should be submitted to the Registrar in case of SACCOS with License Category B and to Assistant Registrar in case of SACCOS with License Category A and where possible should be reviewed by the enforcement function. The Inspection head should review a summary of the findings and approve it for release with the summarized results and conclusions in the transmittal letter and Report.

In the final Report, the Inspector should clearly document any verbal agreements, understandings, and target dates that were reached during the exit meeting, pending any minor adjustments required by TCDC management and should clearly communicate corrective actions that should be taken (See the sample final report in Appendix 4), the rationale for findings and timeframes for actions should be documented in the report and rely on facts and observations by the Inspector.

Like the Inspection Report, a final transmittal letter serves as an important communication tool used by TCDC where there are serious concerns. The letter is intended to bring significant issues and findings of the Report to the attention of the SACCOS Board of Directors and management. The transmittal letter is used to encourage the board of directors to read the report and, when warranted, it should request corrective actions within specific timeframes.

Where there are significant concerns identified, and for any SACCOS receiving a CAMEL rating of 3, 4 or 5, the final Report should be presented by the Team Leader to a joint meeting of the board, management and Inspector inspectory committee. This should occur within four weeks of completing the on-site inspection.

The covering letter should convey the relevant findings of the Report in the order of importance or significance. There is no need to restate the Inspector's exact comments but there is a need to stress the importance of the findings and to state that corrective action on the part of the board of directors is required. The covering letter must specify a timeframe in which the SACCOS response should be submitted to TCDC.

A sample Inspection Report for TCDC is included in Appendix 4. The report should include both prudential aspects of the SACCOS and market conduct aspects for all types of SACCOS. The sample Report should include a review of the capital, assets, management, earnings and liquidity of an institution and market conduct aspects are included within this framework.

For each section, the specific findings related to the areas from the on-site inspection should be documented as well as any recommendations for improvement. Completing the Report and sharing it with the SACCOS is critical to the process of inspection so that SACCOS and TCDC communicate on the status of the institution and that there is a record of compliance strengths, weakness and required actions. This record is critical to measuring the progress of the institution vis-a-vis the required actions during off-site Inspection supervision and in preparation for future inspections.

Debriefing Review

Post review the Team Leader should evaluate what could be improved to make the next inspection more efficient and/or accurate.

At this stage the process of on-site monitoring is completed and TCDC should resume the process of off-site supervision described in Chapter 6.

CHAPTER 5. ADMINISTRATIVE MEASURES

The Microfinance Act 2018 provides TCDC with a range of powers and actions to enforce the Act and its regulations. The Act also gives TCDC the ability to advise or direct SACCOS to take, or cease, actions to come into compliance with the Act or regulations. This Chapter seeks to highlight some of the actions that TCDC can take and *how* it should proceed in taking such actions.

Section A. The Internal Process for Requesting an Administrative Measures

The Act not only provides for actions that TCDC can take but also describes the process that must be followed before taking an administrative measure and how SACCOS can appeal for such action. For example, before TCDC issues a directive to a SACCOS, it shall provide the SACCOS an opportunity to show why such direction should not be issued. Before taking any action, an Inspector who believes that an administrative measure is warranted should review the issue with his/her manager and provide evidence and rationale as part of the draft report for why an administrative measure should be taken and recommend what action he/she believes should be taken.

Only after such a consultation, the Inspector should inspect then bring a recommendation to the Registrar.

Section B. Range of Administrative Measures

As per the Microfinance Act and Regulations, where an on-site inspection or off-site monitoring reveals that a SACCOS is conducting its business in any manner detrimental to or not in the best interest of its members, or members of the public, or any officers, or if any other person participating in the management of the society is engaged in any practice likely to occasion a contravention of any of the provisions of this Act or any regulations, TCDC may issue directions regarding measures to be taken to improve the management or business methods of the SACCOS.

The Act and Regulations provides TCDC with powers to appoint a statutory manager:

- (a) Appoint a person to manage the affairs of the SACCOS society and to exercise all the powers of the society to the exclusion of the board of directors, including the use of the corporate seal of the society.
- (b) appoint a competent person familiar with SACCOS business to its board of directors, to hold office as a director for a period not more than six months or upon improvement of the SACCOS financial position, whichever happens earlier, who shall not be removed from office except with the prior approval of the TCDC or the Bank of Tanzania.
- (c) Where the financial condition and operations of the SACCOS have not improved after the expiry of six months or period extended by the TCDC order liquidation according to the applicable laws.

TCDC may appoint a person, suitably qualified and competent who may be a staff member of TCDC or an outside person to advise and assist the SACCOS generally or for the purposes of implementing any directives.

As per the Regulations, all expenses associated with having a statutory manager shall be borne by the SACCOS. TCDC may take any of the following broad administrative measures for strengthening the performance of the SACCOS.

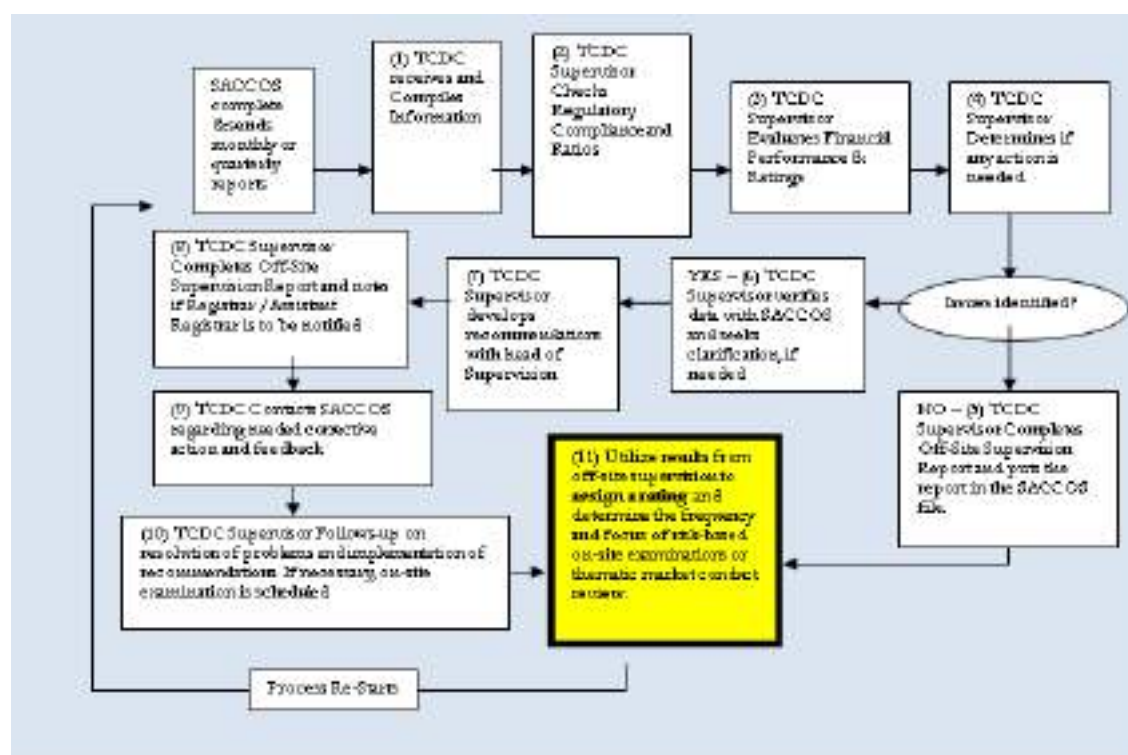
- (a) Restrict, suspend or prohibit the payment of dividends by the society.
- (b) Prohibit the conversion of any profits of the society into capital;
- (c) Direct the suspension or removal of any officer involved in such conduct from the service of society;
- (d) Require the society to reconstitute its board of directors;
- (e) Withhold branch or other corporate approval with respect to such society.
- (f) Undertake regular inspections of that society.
- (g) Order the SACCOS to submit to the Commission within a specified time, a capital restoration plan to restore the SACCOS capital adequacy as prescribed in the Regulation. Alternatively, in the case of issues unrelated to capital such as violations of law, a plan to resolve all deficiencies to the satisfaction of the TCDC.
- (h) Prohibit the society from awarding any bonuses, or increments in salary, emoluments and other benefits of all directors and officers of the society.
- (i) appoint a person suitably qualified and competent in the opinion of the TCDC to advise and assist the society in designing and implementing the capital restoration plan or other corrective action plan and the person appointed shall regularly report to the TCDC on the progress of the plan;
- (j) impose restrictions on growth of assets or liabilities of the society as it deems fit;
- (k) restrict the rate of interest on deposits payable by the society to such rates as TCDC shall determine;
- (l) order the society to do any or take such other action that TCDC may deem necessary to rectify a capital deficiency or other weakness;
- (m) impose financial penalties on the society.
- (n) issue an order placing the society under statutory management.
- (o) restrict the withdrawal of deposits from the society.
- (p) institute legal proceedings against any officer, director, committee member, employee or agent of the society; and
- (q) issue such administrative directives as TCDC may deem necessary.

CHAPTER 6. OFF-SITE SUPERVISION

The process of monitoring the SACCOS sub sector is done through off-site supervision. This can be done through the supervision of individual SACCOS, or the case with market conduct supervision. Under both scenarios, information is needed by TCDC through periodic reports filed by the SACCOS, as well as industry information and general economic conditions. Quantitative measures should be set and TCDC should make remote contact with institutions as needed.

As indicated in Figure 2, an effective off-site inspectory process will ultimately aid TCDC in determining where and when it should either conduct onsite inspections of individual SACCOS and/or conduct broader thematic reviews of market conduct areas (i.e., over-indebtedness, collection or disclosure practices, fair pricing, data privacy, etc.).

Figure 2- Off-Site Supervision Process



Keys to Off-Site Analysis

Appendix 6 includes off-site inspection forms to be utilized by the SACCOS. These forms should be filed **monthly** or **quarterly as may be specified by TCDC**. The forms include the income statement, balance sheet, market conduct indicators and prudential indicators for SACCOS. Once data is gathered, TCDC should analyze the information looking for trends over time, by comparing peer averages to individual SACCOS, focusing on key ratios in the SACCOS performance to aid in analysis and placing emphasis on the right measures for the right types of SACCOS.

APPENDICES

Appendix 1

Inspection Letter

**THE MINISTRY OF AGRICULTURE
THE TANZANIA COOPERATIVE DEVELOPMENT COMMISSION**

Kuu Street,
P.O.BOX 201
DODOMA

Date

The Chairperson,
XYZ SACCOS,

The Tanzania Cooperative Development Commission (TCDC) will perform an on-site inspection of your SACCOS on _____ (date). The Team Leader will be _____. We expect that the inspection will be completed by _____ (date) and the inspection will have an effective date of _____ (date). The objectives of the inspection are to evaluate the financial condition of your SACCOS and its adherence to sound, fundamental operating principles, Cooperative Societies Act and its Regulations, Microfinance Act and its regulations for SACCOS. In order for the inspectors to effectively prepare for this inspection, please provide all of the necessary information as set forth in the attached list (the list will be compiled by the task Team Leader).

With this regard, the office direct your good office to cooperate with the team to facilitate timely execution of the planned assignment.

Thank you in advance for your kind cooperation.

Sincerely,

Head of SACCOS Supervision

TCDC, DODOMA.

Appendix 2 :

Information Request from the SACCOS Prior to the inspection

The Team Leader should send a letter that provides a list of materials that the SACCOS should prepare in advance before the arrival of the Inspectors. Required documents for the inspection include the last reports of inspection, r, last external audit, , internal audit, , and last financial statements, correspondence with TCDC, board and committee meeting minutes, general and subsidiary ledgers, bank account statements for reconciliation, for listings of loans accounts, the largest loans, and deposits, off-site supervision reports, listing of past or pending administrative actions and any action plans addressing the recommendations from the last inspection, and additional items detailed below.

At a minimum the list should include the following items.

1. Electronic copy of the entire loan portfolio in alphabetically or in MS Excel format. This should include all loans, advances, and overdraft items.
2. An electronic list or in Excel format of loans and advances to staff and board members and affiliated businesses.
3. A printed or electronic list and in MS Excel of all non-performing loans and advances *and* the actual loan files for all non-performing loans.
4. A printed or electronic list and in MS Excel of all restructured loans over the past 12 months *and* actual loan file for all restructured loans.
5. A printed copy and electronic file list of written-off loans since the last inspection.
6. A printed copy and electronic file of the most recent month-end trial balance. (Finance & Accounting team)
7. A printed copy and electronic list (in MS Excel) of the most recently approved credit policy and procedure manual governing the loan portfolio. (CC & Governance & Administration team)
8. Authorized credit limits and signature specimens for management (to identify any fraudulent signatures) and loan officers.
9. The minutes from the meetings of board of directors and committee meetings since the last full scope inspection.
10. List of products, services and associated fees and rates. (Operations & Market Conduct team)
11. The loan files for the ten largest loans.
12. List of the ten largest depositors.
13. The last two external Audit Reports and management letters, if TCDC does not already have them.
14. The internal Audit Reports since the last full-scope inspection, if applicable.
15. The last month's balance sheet and income statement.

16. List of persons immediately related to staff and directors (i.e., sons, daughters, spouses, parents).
17. The most recent comparison of the actual to year-to-date expenses vs. the annual budget.
18. A printed list of the board of directors, credit, and audit committee officers, senior management, and loan officers.
19. An organization chart with names.
20. List of fixed assets including date purchased and depreciation amount.
21. Most recent bank statements and reconciliations of statements.
22. A list of changes in management and changes in offices operated.
23. A list of actions taken by the SACCOS to correct deficiencies mentioned in prior Inspection reports and audit reports.
24. Current business plan and a description of significant changes in operations or strategies.
25. List of formal member complaints handled by the SACCOS over the past 12 months.
26. Any significant concerns of management or areas that it would like the inspection to focus.
27. A printed copy and electronic file of general ledger and subsidiary ledgers.
28. Organizational policies (i.e., investments, liquidity, HR, insider dealings, etc.).
29. Analysis of liquidity, asset and liability management.

Appendix 3.

Inspection Questionnaires

Monthly Reports & Profile Review – Worksheet 1		
	Yes/No	Findings
1. Does the Report agree to the financial statements?		
2. Does adequate documentation exist for all significant items on the Reports?		
3. Is the accuracy of the Report certified by someone not involved in preparing the report (i.e. SACCOS Manager, Board member)? Please identify the name of the person who certified the accuracy of the Report in the Comments section.		
4. Is the critical contact information (i.e., Emergency contact, Manager, etc.) in the SACCOS profile accurate?		
5. Does the Report agree to the delinquency records?		
(a) Does adequate documentation exist to support the agreement to the delinquency report?		
6. Does the Report agree to the investment report?		
7. Does the Report agree to the loan statistics?		
8. Does the Report agree to the deposit statistics?		
9. Does adequate documentation exist for all other areas of the Report?		
10. Have any report inaccuracies, if applicable, been communicated to SACCOS management?		
11. Have any concerns, if applicable, been properly addressed in the Inspection Report?		
12. Does SACCOS submit its periodic reports on a timely basis and with the date included?		
13. Does the report meet international financial reporting standards		
Number of Exceptions in this area:	0	

Capital & Shares – Worksheet 2		
Questions	Yes/No/NA	Findings
1. Does the SACCOS have a capital accumulation plan? a. If yes, is the SACCOS following its plan?		
1. Is the SACCOS meeting the minimum capital prudential standards of 10% core capital (i.e., retained earnings + year to date profit(loss) + capital donations + non-withdrawable member shares – any deficiency in loan loss reserves)/ average total assets? If no, indicate the ratios. 2. Is the SACCOS meeting the prudential standard of 8% institutional capital (i.e., retained earnings + year to date profit (loss) + capital donations – any deficiency in loan loss reserves)/ average total assets?		
3. Does the SACCOS exclude withdrawable shares from its regulatory capital calculations?		
4. Is the SACCOS capital at risk due to poor lending, investing, or internal controls?		
5. Are there any accounting problems in the capital accounts?		
6. If its capital ratio is below 10% does it seeks to increase the capital?		
7. Do transactions in the capital accounts require at least the approval of the manager?		
8. Are share dividend rates or interest rebates reasonable?		
9. Is there a dividends policy? If so, review it and past actions against the policy?		
11. Does the SACCOS business plan address the SACCOS current and future capital needs?		
12. Is there evidence of that the Board (or on of its committee’s with reports to the full board) a regular monitoring of the compliance with prudential and CAMEL standards as established by TCDC?		
13. Confirm retained earnings from audited financial statements.		
14. Does the capital account reflected any needed adjustments for deficiencies in provisions to impaired loans or investments?		
14. Does the SACCOS maintain a member list with their name, address, and number of shares/deposits held by each member?		
Number of Exceptions in this area:	0	

Loan Administration - Asset Quality - Worksheet 3		
Questions	Yes/No/NA	Findings
1. Does the SACCOS have an acceptable policy and procedure for extending credit and restructured which will assure sound loans, including collection of sufficient credit information?		
2. Do guarantors guarantee loans for more than 1 borrower? (desired answer is no)		
3. Are spouses used as guarantors? (desired answer is no)		
4. Does any borrower have more than 1 loan?		
5. Does the SACCOS have an updated credit policy that match its practices?		
6. Does the SACCOS have adequate written credit policies that address the following: a. loan portfolio diversification; b. geographic limits for loans; c. loan authority for committees and loan officers; d. duties and responsibilities of the loan officers and credit committee; e.g., acceptable types of loans, the interest rates and the maximum maturities; f. the appraisal or valuation policy; g. borrower's level of indebtedness and credit history to make a loan decisions per regulation; h. loan portfolio management such as loan diversification, background requirements for persons with loan approval authority, and possible conflicts of interest? i. If yes, are the written credit policies being followed?		
7. Does the loan documentation include an analysis of the borrower's capacity to repay per guideline and his/her credit history or a past written off loan?		
8. Are written and signed applications available for all loans?		
9. Is there a credit file for each borrower?		
10. Does each credit file include the planned repayment schedule?		
11. Does the total of the loan trial balance equal the balance sheet amount?		
12. Is there separation of duties among those who (a) approve loans, (b) control collateral, (c) receive payments, (d) post subsidiary ledgers, and (e) reconcile subsidiary and general ledgers?		
13. Do different people approve and disburse loans?		
14. Does the SACCOS have sufficient capital and provisions to support the size, type, and risk of loans granted?		

15. Is there adequate control of negotiable collateral held by the SACCOS?		
16. Do loan officers and the manager operate with approved loan authorization limits?		
17. Does the loan agreement include the following: a. names of borrowers, b. the amount of the loan, c. the interest of the loan, d. date of loan disbursement, e. loan maturity, f. the responsibility for non-repayment of the loan principal and interest, and g. member signature?		
LOANS TO INSIDERS		
18. Do loans to directors, employees and related parties equal less than 20% of all loans?		
19. Are loan terms for officials more favourable than for other members?		
20. Are controls lacking to identify and monitor loans to officials and their relatives?		
21. Are minutes for the decision on all loan applications properly prepared, signed, and controlled?		
22. Do any board members, staff, committee member or immediately family of these individuals have loans more than 60 days delinquent? If so, they should be removed from the board.		
23. Do loan applications contain adequate information to evaluate the borrower's and/or guarantor's financial condition and ability to repay the loan?		
24. Are the amount and repayment terms consistent with the purpose, ability to repay, and collateral of the borrower?		
25. Are loans approved or disapproved within a reasonable time? How long ?		
26. Are persons who approve or disburse loans denied access to cash and record keeping (including access to computer terminals where loan payments can be changed)?		
27. Are loans assigned consecutive note numbers and recorded in a loan register?		
28. Are loan officials denied from holding signed loan applications by members in anticipation of future loans?		
29. Are paid and renewed notes cancelled and promptly returned to members?		
30. Is a receipt required for loans that are disbursed in cash?		

31. Are members allowed to extend the maturity of their loan? a. If yes, what is the maximum period of time?		
32. Are members allowed to refinance their loan? a. If yes, are the loans paid current before they are refinanced? b. Are the refinanced loans distinctly presented on financial statements per regulations?		
33. Does the board receive and review the following reports monthly: a. past due loans; b. total outstanding loan commitments; c. loans requiring special attention; and d. new loans, loan renewals and restructured loans?		
34. Is there an adequate internal review of the lending function that: a. rechecks all calculations made in granting a loan; b. determines that the amortization schedule is correct; c. reviews files to determine all documentation is present; d. determines loan approval authority was not exceeded; e. determines all required signatures were obtained; f. the amount granted to the borrower is within policy limits; and g. confirms collateral values are not overstated?		
35. Is the loan review function independent of the lending function?		
36. Have the 10 largest loans been reviewed?		
37. Are any of the 10 largest loans delinquent?		
38. Are there any loans that represent greater than 10% of regulatory capital?		
39. If NPLs are <5% is any loan more than 10% of capital? If NPLs are >5% is any loan larger than 5% of capital or 2.5% of deposits?		
40. Have inspectors pulled a sample of 5% of the loan portfolio for review as a representative sample?		
41. Do directors declare and physically remove themselves from portions of meetings where they may have a conflict of interest?		
42. Is the SACCOS lending more than 80% of its combined deposits, subsidies and borrowings?		
Number of Exceptions in this area:	0	

Loan Collections - Asset Quality – Worksheet 4		
Questions	Yes/No/NA	Findings
1. Is the borrower contacted immediately when their loan becomes delinquent? After how many days ?		

2. If the borrower does not respond to the 1st contact are they pursued until contact is made and a payment date established?		
3. If the borrower is unable to repay a loan does the SACCOS have the ability to repossess assets? If yes, are assets repossessed in a timely fashion?		
4. Is a guarantor on a delinquent loan contacted at the same time the primary borrower is?		
5. Is a collection card used that contains all information on the delinquent borrower such as: type of contacts made, date of contact, results of the contacts, promises to pay, payments made, and follow-up made by collector on missed promised payments? If yes, is all the information noted in chronological order and on one document, the collection card?		
6. Are persons who approve and disburse loans denied access to cash and record keeping (including authorization in systems) where loan payments can be made or changed?		
7. Are all loans with a delinquent first delinquent payment specially reviewed?		
8. Is a register of loan protection claims maintained?		
9. Are in-house collections staff trained and experienced in proper and ethical collection practices?		
10. Is the collections department staffed for after-hours or weekends to best contact borrowers?		
11. Are recorders and notes maintained of all contacts and conversations with borrowers in default?		
12. Does management periodically review the workload and performance of the collections department?		
13. If write offs are greater than 10% has the SACCOS focused on collections?		
14. Are the member's deposits and shares immediately frozen and transferred to pay off the delinquent loan?		
15. Do tellers have watch lists or flagged accounts for delinquent borrowers?		
16. Are co-signers contacted early in the collections process?		
17. Are extensions and refinancing policies designed to avoid future delinquency?		
18. Are all restructured loans documented with a new loan agreement and tracked separately?		
19. Do interest payments cease to be included in income at the time a provision is made for a NPL?		
Repossessed Assets and Other Assets		

20. Does the SACCOS have any repossessed assets in its possession? If yes, is the book value based on fair market value at the time of repossession?		
21. Does the SACCOS have adequate reserves established if there will be a loss on the sale of a repossessed asset?		
22. Are there other assets that should be classified or reserves established due to a potential loss?		
23. Is any property received from a defaulted loan sold within 2 years of seizing it?		
Number of Exceptions in this area:	0	

Validation of Aging and Provisions – Worksheet 4b		
Questions	Yes/No/NA	Findings
1. Are all loan frequencies ((Maturity date - Disbursement date)/Number of payments) consistent with the SACCOS reported frequencies in the loan listing?		
2. If not, make SAMPLE 1 – inconsistencies, and review through the loan tracking application to loans rescheduled.		
3. Are there grace periods provided on SACCOS loan repayments?		
4. If not, make SAMPLE 2 – inconsistencies, and review through the loan tracking application.		
5. Do inconsistencies (e.g. negative values) arise in number of installments paid?		
<i>Active loans</i> 6. Fixed capital installments: Amount paid/payment per installment Fixed installments (w/interest charged on decreasing balance):		
<i>Fully paid loans</i> 7. Same as open loans, except use amount of last payment instead of balance (Round to lower integer value; installments 95% paid or over could be rounded to higher integer value). If so, make SAMPLE 3 – negative values, and review through the loan tracking application.		
8. Are dates or arrears start and days in arrears consistent with the SACCOS information contained in the loan listing? Date arrears start (Disbursement date + (frequency*installments paid) + frequency + grace period		

Days in arrears Open loans. Cut-off date – date arrears start Fully paid loans. Date of last payment – date arrears start If not, SAMPLE 4 – discrepancies in dates or days arrears), and review through the loan tracking application.		
9. If discrepancies confirmed, what is their impact on PAR reports used higher management?		
10. If discrepancies confirmed, what is their impact on delinquency reports used for loan collection by loan officers?		
11. If discrepancies confirmed, is the credit/IT staff aware? Is there a plan and timeframe to correct quality of arrears computation?		
12. Are there unreported renegotiations being approved at the branch level? Select those loans that were in arrears at closing and had significant (20% or more) balances		
If renegotiations found, SAMPLE 5 – possible renegotiations, discuss with credit and IT staff to ensure no uncontrolled renegotiations going on at the branches.		
Is the SACCOS classifying and provisioning loans according to TCDC regulations?		
If discrepancies exist, SAMPLE 6 – deficiencies in classification and/or provisioning, and discuss with credit and IT staff. Are they already aware? Is there a plan and timeframe to correct classification and/or provisioning?		
Number of Exceptions in this area:	0	

Investments - Asset Quality – Worksheet 5		
Questions	Yes/No/NA	Findings
1. Does the SACCOS have a written investment policy that includes the following: a. Purpose and objectives? b. Designation of authority specifying persons and/or committees and the extent of their authority? c. Limits on the amount of funds that may be committed to any particular investment?		

d. Maturity limits? e. A list of approved investment types?		
2. Does the board review and revise investment policies periodically?		
3 Is there an appropriate segregation of duties among those who: a. executes investment transactions, b. approves investment transactions, c. has access to investments, and d. post or reconcile related accounting records?		
4. Does the board receive regular investment reports (no less than monthly) showing such data as type, amount, current valuation, maturity distribution, and yield?		
5. Are all investment transactions properly authorized and documented by the responsible individual(s) or the Board?		
6. Are the investment documents stored in a fireproof safe with limited access?		
7. Are the investments limited to deposits in domestic banks, insurance companies, government back securities, or debentures approved by the government?		
8. Have specific employees been designated to conduct investment transactions? If yes, provide the name and title of the employee(s).		
9. Do investment transactions require the approval of at least 2 employees?		
10. Does the SACCOS have a system to monitor the performance of its investments?		
11. Do investments in projects or holdings exclude ones related to board members, committee members staff or their immediate family?		
12. Is there diversity of the investments or deposit held with banks to avoid concentration risk?		
13. Does the SACCOS engage in its own monitoring of the largest deposits it has in banks or government debt?		
14. Does the SACCOS periodically assess the fair value of its investments and adjust values accordingly?		
15. Does SACCOS follow TCDC requirements on investments?		
Number of Exceptions in this area:	0	

Provisions – Management – Worksheet 6		
Questions	Yes/No/NA	Findings
1. Did you review the prior Inspection report in relation to the adequacy of the allowance for loan losses, methodologies, policies and procedures, etc.?		
2. Did you review the latest audit report in relation to the adequacy of the allowances for loan losses, methodologies, policies and procedures, etc.?		
5. Has the SACCOS provisioned 30% of the total non-performing loan amounts between 91-180 days past due?		
6. Has the SACCOS provisioned 50% of the total non-performing loan amounts 181-365- days past due?		
7. Has the SACCOS provisioned 100% of the total non-performing loan amounts over 365 days past due?		
8. Was the last inspection or audit free of any problems with provisioning?		
9. How do you provision for restructured loans?		
10. Is board informed of the provisions being made?		
11. Are all loans over 365 days past due provisioned for?		
12. Have all non-performing loans over 365 days been written off the balance sheet?		
13. Are written off loans moved to an off-balance sheet ledger for further collection?		
14. Do you have any assistance when your borrowers are taken to court?		
15. Are there dual controls between the loan officer, collector and person authorizing loans to ensure that insider fraudulent loans are not being written off?		
16. Do the collection policies utilize the resources of the board and credit committee to aid in collections?		
17. Is a list of proposed written off loans provided to the board for approval?		
18. Does the list provided to the board include the name of the borrower, amount of original loan, amount to be written off, reason and methods for writing off the loan?		
Number of Exceptions in this area:	0	

Accounting & Management Red Flags – Management - Worksheet 7		
Questions	Yes/No/NA	Findings
Accounting – Reconciliations		
1. Ongoing record keeping problems		
2. Cash and bank reconciliations not complete, in arrears, or with (fluctuating) out of balance amounts.		
3. Excessive teller overages or shortages, either in number or amount		

4. Compliance with teller and vault cash procedures		
6. Numerous voided or third-party cheque		
7. Numerous stale-dated outstanding cheque		
8. Numerous stale-dated reconciling items		
9. Lump sum postings not conducive to good audit trail		
10. Cheques or transactions receipts missing or out of sequence		
11. Timeliness of deposits not in accordance with Bylaw requirements		
12. Bank account activity and/or bank account balances (or share draft clearings/total share draft balances) exceed realistic limits.		
13. Excessive number of depository accounts providing potential for kiting		
14. Excessive cash/assets ratio (indicates poor cash management or possibly fraud)		
Management		
1. Overly dominant manager		
2. Manager or key employee involvement in misconduct		
3. Regular vacations not taken, always working late hours		
4. Extravagant management or employee lifestyle relative to salary		
5. Other forms of insider abuse or preferential treatment		
6. Limited personnel not conducive to segregation of duties		
7. Lack of adequate segregation of duties when the SACCOS is adequately staffed to achieve such		
8. Failure to provide, or delays in providing, standard reports, records, and/or documents		
9. Record maintained at home or not where they should be		
10. Management or staff provide copies of documents rather than originals		
11. Inactive inspectory committee		
12. Lack of, unacceptable, or non-independent audit or verification		
13. Inadequate internal controls and information systems (IS) controls		
14. No internal review of override/non-financial reports		
15. Bank account frequently overdrawn		
16. High volume of excessive transactions		
17. Use of borrowed funds in spite of large cash balances		
18. Lack of a fraud policy		
Other		

1. Low return on assets or on various asset categories		
2. Payment of above market dividends to attract deposits		
3. Did they fail to receive TCDC approval for opening a new branch ?		
4. Were the Annual General Meeting minutes not provided to TCDC after the meeting?		
5. Has the SACCOS failed to file profiles of all staff and directors with TCDC?		
Growth		
6. Does the SACCOS lack growth in assets and member?		
7. Are the SACCOS systems and staff growing out of sync with its assets?		
8. Is the capital growing out of sync with its assets?		
Number of Exceptions in this area:	0	

Cash & Internal Controls – Management – Worksheet 8		
Questions	Yes/No/NA	Findings
1. Are bank deposits made in a timely manner so as to reduce the amount of cash on the SACCOS premise? How often are bank deposits made?		
2. Is the safe cemented and is under dual control always?		
3. Are the bank reconcilements completed on a timely basis? In how many days after the end of the month ?		
4. Is there dual control during the process of receiving or disbursing cash?		
5. Does the SACCOS keep an amount of cash on the premises in line with its policies? If yes, specify amount		
6. Does more than one person have access to the safe cash?		
7. Does each cashier have their own cash supply (i.e. the cashiers do not share a cash drawer)?		
8. How is the cash kept?		
9. Is currency routinely counted and reconciled (at least daily) to recorded amounts?		
10. Are surprise cash counts of cashier funds, safe cash, and cash items performed periodically by persons other than those with related day-to-day responsibility?		
11. Are cashiers required to balance the contents of their drawer daily with accounting records?		
12. Are cash transactions reviewed daily for propriety by a inspectory employee other than the custodian of the cash?		
15. Did you observe staff count all cash in the presence of a SACCOS official or manager and determine that the count balances with the general ledger.		
16. Did you surprisecheck several months of bank and corporate account reconcilements.		
17. Did you verify all outstanding items on the bank\corporate reconcilements, especially deposits in transit.		
18. Are adjusting entries are cleared in a timely manner.		
19. Did you review several months bank statements for reasonableness of total deposits and withdrawals.		
20. Are deposits made intact and in a timely manner in accordance with the SACCOS Bylaws.		
21. Randomly review cancelled and voided cheques for unusual payees.		
22. Does dual control exists over vault cash and receipts from counters (i.e., remote offices)?		

23. Are proper controls are in place over wire transfers?		
Tellers		
1. Do all tellers have sole access to their own cash supply under supervision of the inspector,		
2. Do all spare keys kept under dual control?		
3. Do all tellers have their own controlled cash drawer in the safe or vault to store their cash supply during non-working hours?		
4. Is each teller's cash verified on a surprise basis by the head teller or internal/external auditors?		
5. Are cash drawers provided with locking devices to protect the cash during periods of teller absence?		
6. Is an individual cumulative over and short records maintained for all persons handling cash?		
7. Are material teller differences required to be reported to management for clearance?		
8. Are teller transactions identified?		
9. Are maximum amounts established for tellers cashing checks or disbursing share withdrawals without approval?		
10. Are tellers prohibited from processing their own checks and processing transactions on their own share and loan accounts?		
11. Are tellers required to clear all checks from their funds daily?		
12. Are the cash supplies assigned to the tellers kept at a reasonable minimum?		
13. Are teller duties restricted to teller operations?		
14. Are deposits made in night depositories opened and recorded under dual control?		
Internal Controls		
1. Review the following reports on a random basis:		
a. Inspectory Override/authorisation Reports		
b. File Maintenance Reports		
c. Dormant Account Activity Reports		
d. Overdraft Reports		
2. Review Loan Reports as follows:		
a. Over Paid- Loan Report		
b. Single Repayment Loan Report		
c. Loan Concentration Report		
d. Report of Loans with No Activity.		
e. First Payment Default Report		
f. Loans with Large Payments Reports		
g. Zero Interest Loan Reports		
3. Trace/check charged off loans to approval in the board minutes.		
4. Are proper loan/credit committee controls are in place?		
5. Scan/review the share and loan trial balance for any unusual balances, interest rates, payment amounts, loan dates, or account numbers.		
6. Did you follow up on missing loan files; if any?		

7. Does the board review internal control reports on an annual basis?		
---	--	--

Anti-Money Laundering – Management – Worksheet 9		
Questions	Yes/No/NA	Findings
1. Are there board approved anti-money laundering policies and procedures?		
2. Are there sufficient copies of the relevant Act and Regulations available to staff and committee members?		
3. Are all staff well trained with the administration of anti-money laundering policies and procedures?		
4. Do all the staff adhere to the procedures of anti-money laundering?		
5. Is the process of interviewing a member with large transactions or multi-transactions or suspicious transactions thorough?		
6. Is there a clear audit trail to indicate that there has been thoroughness with regards to interviews of members on any matter?		
7. Is there evidence of know your customer and employee such as requiring government issued ID for account opening?		
8. Is there a register of suspicious transactions reported to the compliance officer but not filed with the authority?		
9. Is there evidence that the appropriate forms are completed and submitted where necessary to the anti-money laundering inspectory authority?		
10. In the inspector’s opinion is the SACCOS staff capable of completing all the required forms accurately?		
11. Is there a register in which transactions and activities reported to the authorities are recorded?		
12. Is there evidence that the SACCOS complies with all requirements of applicable anti-money laundering laws and regulations, and procedures?		
13. Is there a register of enquiries made by the inspectory authority?		

Consumer Protection – Management – Worksheet 10		
Questions	Yes/No/NA	Findings
1. Does the SACCOS has written disclosure terms and conditions for each share, savings and time deposit to its members and potential members?		
2. Is there any disclosure of the current interest rate and annual percentage yield as established by the Board members and the method used to calculate the interest?		
3. Does the SACCOS give advance written notice to members on any changes affected by account?		
4. Does the loan agreement ensure transparency and full disclosure of its products and services ?		
5. Is there any customer complaints handling and dispute resolution mechanism?		
6. Does the SACCOS provide a disclosure statement in writing to the guarantor which indicating the liability for the loan guaranteed ?		

7. Does the Lending Policy indicates the debt collection or recovery procedures of a loan from member?		
8. Does the SACCOS provide Financial Education to its members on the key features of products and services offered ?		
9. Does the SACCOS comply with Financial Consumer Protection Laws?		
9. Does the SACCOS comply with Financial Consumer Protection Laws?		
9. Does the SACCOS comply with Financial Consumer Protection Laws?		
9. Does the SACCOS comply with Financial Consumer Protection Laws?		

Cyber-security – Management – Worksheet 11		
Questions	Yes/No/NA	Findings
1. Does an MIS system exist? If so, is access limited to people that need access?		
2. Is there a written Disaster Preparedness & Response (DPR) plan?/Disaster Recovery Plan		
3. Does the plan address periodic testing?		
4. Are updates to the plan and testing efforts documented in the board minutes?		
5. Does the DPR plan identify specific threats to delivering vital financial services to its members?		
6. Does the DPR plan identify critical systems and their role in providing members with vital financial services?		
7. Does the DPR plan establish a timeline for restoring critical systems?		
8. Does the DPR plan include multiple forms of communications?		
9. Does only one person utilize a single user ID?		
10. When do passwords for mission critical systems change?		
11. What is the passwords length?		
12. Does the SACCOS have updated virus software in place?		
13. Has the SACCOS utilized 3rd parties to help them test their system by attempting to hack it?		
14. Are passwords encrypted and all data encrypted in transmission?		
15. Are all production computer systems including but not limited to servers, firewalls, hubs, routers and voice mail system physically located within a secure data center?		
16. At all times are at least two (2) staff members available to provide essential technical service for information systems critical to the SACCOS?		
17. Are changes to production data and computer programs limited to only authorized personnel?		
18. Does the SACCOS maintain adequate back-office procedures that permit information processing activities to quickly and expediently revert to conditions in effect prior to the most recent change in software?		
19. Does the SACCOS have off-site storage of back-up files?		

Earnings – Worksheet 12		
Questions	Yes/No/NA	Findings
1. Is the SACCOS offering market-based rates on its savings and loans?		
2. Is the SACCOS gross margin sufficient to grow capital at a pace that is in-step with asset growth?		
3. Is the SACCOS earning market-based rates on its liquid and financial investments?		
4. Does the SACCOS have non-financial investments? If the SACCOS has non-financial investments, are they earning more as a percentage than its loan portfolio?		
5. Does the SACCOS have an operating budget? Is the SACCOS expenses below or above its operating budget?		
6. Are its total operating expenses less than 10% of its assets?		
7. Is the SACCOS net income before donations enough to ensure the SACCOS is meeting the net worth requirement of 10%?		
8. Are the SACCOS earnings over the past 4 quarters trending in a positive direction and sufficient to grow capital?		
9. Do the officials monitor the SACCOS exposure to interest rate risk on a periodic basis?		

Fixed & Non-earning Assets - Earnings – Worksheet 13		
Questions	Yes/No/NA	Findings
1. Does each subsidiary ledger have adequate information including: the name and number of the asset, the purchase price, the depreciation period, the depreciation amount, depreciation rate, , asset condition and the book value of the asset?		
2. Is each fixed asset physically located at the premises of the SACCOS and being used in the SACCOS?		
3. Does the SACCOS have a separate subsidiary ledger for fixed assets with adequate detail that is up-to-date and in balance with the general ledger amount?		
4. Does year-to-date depreciation agree with that in the income statement?		
5. Does the SACCOS have a fixed asset policy? If yes, does the SACCOS follow its policy?		
6. Is the amount in fixed assets reasonable in regards to the capital structure of the SACCOS and its level of operations?		
7. Has the SACCOS invested too much in fixed assets? Is this investment detrimentally affecting the profitability of the SACCOS?		
8. Are the SACCOS total non-earning assets less than 5% of total assets?		
9. Does the SACCOS has the title for its house and property?		
10. Are fully depreciated assets included in the inventory list?		
Liquidity – Worksheet 14		
Questions	Yes/No/NA	Findings
1. Has the board established liquidity policies?		
2. Does the policy clearly establish the purpose, objectives and goals of liquidity management?		

3. Have key responsibilities been assigned to employees for liquidity management?		
4. Does the policy require how and when liquidity control?		
5. Does the policy require informing the board of policy exceptions?		
6. Is all of the SACCOS liquidity invested in readily convertible to cash instruments of less than three months?		
7. Does the SACCOS have liquid assets (less three months) that equal or exceed 15% of savings deposits and short-term liabilities?		
8. Are there sufficient deposits, borrowing or other liabilities greater than 1-year funding the loans greater than 1 year?		

Deposits & Borrowings – Liquidity – Worksheet 15		
Questions	Yes/No/NA	Findings
1. Does the total amount of deposits equal the amount on the balance sheet?		
2. Does the term deposit agreement contain: a. Member's name b. the account number, c. the amount of the deposit, d. the interest rate, e. the deposit issue date and maturity date, f. interest payment method and periods, g. penalty for early withdrawal, h. designation of beneficiary, and i. terms and conditions under which deposits, and interest must be returned at maturity?		
3. Does each member receive a passbook to record savings transactions?		
4. If yes, does the passbook include: a. the member's name, b. the account number, c. date the deposit or withdrawal was made, d. the outstanding balance, e. signature of the employee accepting the deposit or performing the withdrawal transaction, and g. fees or late charges.		
5. Are all transactions recorded in the passbook?		
6. If a member withdraws money, is he/she required to sign the receipt?		
7. Does the SACCOS offer competitive rates on deposits?		
8. Are duties segregated between persons: having access to cash, responsible for opening new accounts, responsible for authorizing account adjustments and responsible for posting information to the general ledger?		
5. Are subsidiary ledgers for deposits and accrued interest reconciled to the general ledger on a periodic (no less than quarterly) basis?		
10. Are all closed accounts reviewed by the Inspectory Committee or their appointee to ensure that they were closed by their owner and there is no fraudulent activity?		

11. Are employee and official's accounts and their dependents periodically reviewed for abnormal activity?		
12. Does the SACCOS borrow funds at subsidized rates?		
13. If yes, has management analysed the effect on the SACCOS profitability should the subsidized credit be lost?		
14. Does management have an alternative plan if the SACCOS should lose the subsidized credit?		
15. Does any top ten depositors hold more than 20% of total savings and deposits?		
16. Does the SACCOS pay all liabilities on time and per the invoice terms?		
17. Are amounts included in "other liabilities" periodically reviewed for purpose of accounting?		
18. Does the SACCOS have suspense accounts with balances? a. If yes, have all items in the accounts been identified? b. If yes, are items in the account clearing in a timely fashion? c. If yes, are there any losses in this account(explain)?		
19. Is the SACCOS borrowings less than 5% of its total assets?		
20. Does the Inspectory Committee or auditor annually verify members' balances by random sample of accounts?		

Appendix 5

A Sample of On-Site Inspection Report

TANZANIA COOPERATIVE DEVELOPMENT COMMISSION

TABORA SACCOS LTD

OCTOBER 2020

On-Site Inspection Report

I. Overview of Inspection

A joint inspection team comprising of XXX from Tanzania Cooperative Development Commission conducted a full scope Inspection of TABORA SACCOS LTD at its head office in XXX. The inspection was conducted from the period of 10th to 20th September, 2020. This was the first Inspection of TABORA SACCOS LTD by TCDC and as such it was somewhat unique in that its purpose was both a training exercise for you staff on full compliance requirements as well as an actual Inspection of your SACCOS. TCDC would want to thanks TABORA SACCOS LTD for its kind cooperation and assistance with this activity. The Inspection was conducted utilizing the CAMEL framework for assessing financial institutions and customized based on Microfinance Act 2019 and its regulations for SACCOS in Tanzania.

II. Executive Summary & Situational Analysis

TABORA SACCOS LTD is a well-run organization despite being founded recently in 2014. It has approximately XXXXX members, the vast majority who are women. They have XX branches. There are XXX staff and the only source of debt or equity is from within the SACCOS members. TABORA's loss rate on loans is a very low 0.03%.

The primary areas for improvement revolve around the disclosure of potential penalties on loans. These specific areas of improvement are provided in greater detail below.

While not part of a review of the past operations, part of the Inspection included a forward-looking assessment of risks. In our opinion, TABORA SACCOS LTD is well-managed and appears poised for growth

III. Methodology used

The inspector should identify and mention the methodologies used during on-site supervision.

IV. Detailed findings

Capital

Description: This area assesses the solvency and adequacy of an SACCOS capital base. A strong capital base of a SACCOS can help ensure that it is well-positioned to absorb potential losses or fuel future growth of the organization.

Findings: TABORA SACCOS LTD is well-capitalized and exceeds the minimum requirements in this area. This includes total equity of 84% of total assets and zero debt as the members of TABORA SACCOS have made good capital contributions in the SACCOS. There is also a good policy on retained earnings which boosted the capital base of the SACCOS. We were, however, not possible to assess the contributions from donor grants as the consolidated income statement was not complete.

Recommendations:

Asset Quality

Description: The core business of a SACCOS is its loan portfolio. An institution's ability to manage the risk in its loan portfolio while still earning a return and not indebting members is paramount. Well-developed credit and collection policies are critical as are systems to administer, monitor and collect loans.

Three key ratios to help determine the soundness of the SACCOS assets and evaluate asset quality are non-performing loans/total assets, total non-earning assets/total assets and loan write offs/total loans. In addition, a review of provision and write offs of non-recoverable loans are important.

Findings: TABORA SACCOS LTD has no non-performing loans and a loan loss provision of 2% of the entire portfolio. This appears to be the result of a well-developed lending methodology and strong social collateral requirements among members. We realized that most of the collateral securities provided for loans are not jointly registered with the register of titles in the name of the loanees and the TABORA SACCOS.

The average caseload per loan officer is around 350 loans, but some credit officers have 500 or more loans. We were also concerned with the narrow focus provided for credit officers as it is only aimed at debt collection and not business advisory.

Recommendations:

Management

Description: The review of management and governance system at a SACCOS covers a wide range of policies, practices and compliance systems that the organization has put in place. The management review reflects the performance of the entire management team of the SACCOS. This includes the board of directors and all levels of management. The review is an assessment of management's overall effectiveness, internal controls, and the management information systems in place. While the focus is on the financial soundness of the SACCOS, an understanding of the treatment of members can aid in understanding the overall sustainability of the SACCOS.

The assessment of management on a historical, current, and prospective evaluation of management's effectiveness in addressing problems the SACCOS encounters. Since financial performance is the primary indicator of the viability of a SACCOS, the SACCOS financial performance will strongly influence the management rating. Where voluntary savings are not mobilized a greater emphasis is placed on consumer protection/market conduct aspects of the institution.

Findings: TABORA SACCOS LTD has in place well developed management systems and an experienced management and board team. It has several key policies in place including credit policy, finance and

investment policy and human resource policy. They also have a board charter in place that describes the SACCOS governance structure. They are also in the process of reviewing all the existing policies in line with the new Act and regulations. TABORA SACCOS LTD complies with the majority of consumer protection-oriented regulations of TCDC. However, one area of non-compliance with TCDC regulations were identified.

First, members are not sufficiently informed of potential penalties associated with loans as required by TCDC regulations. This is especially evident in the area of the penalties associated with early repayment of loans where the fees associated with this are not disclosed in writing.

Recommendations:

Earnings

Description: The review of earnings includes an analysis of the SACCOS loans and savings, and where applicable, pricing and pricing methodology. This area also includes an analysis of the level of financial sustainability of the organization.

Findings: TABORA SACCOS LTD, similar to many SACCOS, has set its prices at the maximum allowable levels and complies with the regulation regarding pricing. Despite having very little loan delinquency, TABORA SACCOS LTD was at 75% solvency as of December 2018. Relatively recent changes in staffing and the devaluation of the Tanzania Shillings have put additional profitability pressures on the organization's financial position.

Recommendations:

Liquidity

Description: Liquidity is important to help a SACCOS meet its expected and un-expected short-term funding needs. For a SACCOS which mobilizes voluntary savings as opposed to external borrowing, it is even more important that the SACCOS have sufficient liquidity to meet its loan and member withdrawal demands.

Findings: At the time of the inspection TABORA SACCOS LTD was not mobilizing voluntary or mandatory deposits. However, a large push in this direction was being planned by management.

Recommendations:

V. Compliance with the relevant Laws and Regulations.

The final section of this report highlights the areas of compliance or non-compliance with the key laws and regulations for SACCOS for which TCDC has the relevant jurisdiction over.

TABORA SACCOS LTD

SUMMARY OF PRUDENTIAL REPORT

Regulation	Operating Issues	Compliance (Yes/No) or NA
	Capital	
	Capital: Paid up capital of XXX million for non-deposit taking SACCOS, or XXX million for deposit-taking SACCOS	Yes
	Capital:	Yes
	Capital: Solvency >6%	
	Capital:	
	Asset Quality	
	Asset Quality: Loan loss provisions for loans: 0-30 days = 0% 31-90 days = 10% 91-180 days = 30% 181- 365days = 50% 365+ days = 100%	Yes
	Management	
	Management: The only financial services permitted are savings and credit. Management:	Yes. Yes
	Management: SACCOS must utilize a standardized charter of accounts	Yes
	Management:	Yes
	Management:	Yes.
	Management:	Yes. Members of the household are recorded as part of the loan application.
	Management:	Yes.

		NA. Yes. No.
	Management: Mobile money payments are allowed.	NA.
	Management:	NA.
	Management:	Yes.
	Management: Management:	Yes. Their parent is their sole source for loans and equity & has an AML/CFT policy. NA.
	Management: All SACCOS must take base line data for social development to be able to evaluate the effectiveness and impact of their activities.	Yes.
	Management: SACCOS must comply with all laws on money laundering.	Yes.
	Management: Must disclose amount of installment and number of payments. Management: Disclose the term of the loan. Management: Disclose any penalty for loans.	Yes. Included in loan contract Yes. This is included and attached to the loan passbook. No. Never disclosed in writing.
	Earnings	
	Earnings:	Yes NA
	Earning:	Yes. However, fees and commissions are not

		included in the interest rate calculation.
	Liquidity	
	Liquidity:	NA.
	Liquidity: Liquidity >15%	Yes

Vi. Conclusion

The team should give a conclusion remark on the undertaken assignment

Appendix 6

Off-site Reporting Forms

COMPREHENSIVE INCOME FORM

Sno	Particular		Amount in TZS (month to date)	Amount in TZS (Previous Month)
a	b	CODE	c	d
1	Interest Income			
2	Interest Income on Loans	400004	0.00	0.00
3	Interest Income - Government Securities	400005	0.00	0.00
4	Interest Income Deposits in Financial Institutions	400006	0.00	0.00
5	Interest Income Other SACCOs and 2nd Tier organizations	400007	0.00	0.00
6	Interest Income Other Investments	400008	0.00	0.00
7	Total Interest Income (Sum 2:6)		0.00	0.00
8	Interest Expense			
9	Interest Expense on Borrowings	500007	0.00	0.00
10	Interest Expense on Member Savings and Deposit Accounts	500008	0.00	0.00
11	Other Interest Expense	500009	0.00	0.00
12	Total Interest Expense (Sum 9:11)		0.00	0.00
13	Net Interest Income = (Total Interest Income - Total Interest Expense)		0.00	0.00
14	Non Interest Income			
15	Commissions and Fees	400003	0.00	0.00
16	Penalties	400009	0.00	0.00
17	Other Non Interest Income		0.00	0.00
18	Total Non Interest Income (Sum 15:17)		0.00	0.00
19	Gross Operating Income = (Net Interest Income + Non Interest Income)		0.00	0.00
20	Operating Expenses			
21	Salaries and Wages	500000	0.00	0.00
22	Other Personnel Costs and Benefits	500010	0.00	0.00
23	Office Occupancy (Rent)	500011	0.00	0.00
24	Operations Expenses (supplies, travel, training, communications,	500012	0.00	0.00
25	Professional Fees and Services	500013	0.00	0.00
26	Depreciation	502000	0.00	0.00
27	Maintenance/ Repairs	501003	0.00	0.00
28	Other Operating Expenses	500014	0.00	0.00
29	Total Operating Expenses (Sum 21:28)		0.00	0.00
30	Net Operating Income (Loss) = (Gross Operating Income- Total Operating Expenses)		0.00	0.00
31	Loan Loss Provisions (Recoveries)			
32	Provision for Loan Losses	500015	0.00	0.00
33	(Less: Recoveries)	from system	0.00	0.00
34	Provisions for Investments and Other Losses	500016	0.00	0.00
35	Net Provision for Losses (Sum 32& 34 less 33)		0.00	0.00
36	Extraordinary Items			
37	Extraordinary Income	400011	0.00	0.00
38	Extraordinary Expenses	500017	0.00	0.00
39	Donations and Grants (cash only)	402001	0.00	0.00
40	Prior Period Adjustments		0.00	0.00
41	Total Extraordinary Income/(Expenses) (Sum 37,39&40 less38)		0.00	0.00
42	Net Profit Before Tax = (Net Operating Income +/- Net Provision		0.00	0.00
43	Tax Provisions	from system	0.00	0.00
44	Net Profit After Tax = (Net Profit Before Tax less Tax		0.00	0.00
45	Dividend Paid on Shares*		0.00	0.00

(*SACCOs management should complete this form using their income statement information as of the reporting date. SACCOs management should also attach their income statement to this form.)

STATEMENT OF FINANCIAL POSITION FOR THE MONTH ENDED: (State the month)

TDC FORM 16-20: To be submitted Monthly for Category B and QUARTERLY for Category A

(Amount reported as TZS 0.00)

S/N	Earning Assets	Loans		Amount in TZS (month to date)	Amount in TZS (Previous Month)
a	b		CODE	c	d
1	Short-term Loans (≤1 year)		100010	0.00	0.00
2	Medium-term Loans (>1-≤3 years)		100011	0.00	0.00
3	Long-term Loans (>3 years)		100012	0.00	0.00
4	Loan Participations*		100013	0.00	0.00
5	(Less the Allowance for Loan Losses)		100003	0.00	0.00
6	Total Net Loans			0.00	0.00
7	Earning Assets Investments				
8	Government Securities ≤30 days to maturity		102003	0.00	0.00
9	Government Securities >30 days to maturity		102004	0.00	0.00
10	Investments in Banks and other Financial Institutions ≤30 days to maturity(FDR)		102005	0.00	0.00
11	Investments in Banks and other Financial Institutions >30 days to maturity (FDR)		102006	0.00	0.00
12	Investment in other SACCOS or 2nd tier organizations		102007	0.00	0.00
13	Other Investments		102002	0.00	0.00
14	(Less the Allowance for Investment Loss)		102008	0.00	0.00
15	Non-Financial Investments		102009	0.00	0.00
16	Total Net Earning Assets Investments			0.00	0.00
17	Non-Earning Assets (Cash and Cash Equivalent)				
18	Cash on Hand		100000	0.00	0.00
19	Current Accounts with banks and other financial institutions		100007	0.00	0.00
20	Other Non-earning Deposits with banks and other financial institutions*		100014	0.00	0.00
21	Balances with Mobile Money Networks e.g MPESA, TIGOPESA		100008	0.00	0.00
22	Agent Banking Account Balances (NMB CR CRDB Wakala)		100015	0.00	0.00
23	Total Non-Earning Assets (Cash and Cash Equivalent)			0.00	0.00
24	Non-Earning Assets (Fixed Assets)				
25	Land (cost)		101001	0.00	0.00
26	Buildings (cost)		101002	0.00	0.00
27	Furniture & Fixtures		101005	0.00	0.00
28	Equipment		101003	0.00	0.00
29	Other Fixed Assets (cost)		101007	0.00	0.00
30	Leasehold Improvements (cost)		101008	0.00	0.00
31	Revaluation of Fixed Assets		101008	0.00	0.00
32	(Less Accumulated Depreciation)		101006	0.00	0.00
32	Total Net Non-Earning Assets (Fixed Assets)			0.00	0.00
33	Non-Earning Assets (Other Assets)				
34	Accounts Receivable due in ≤30 days		100016	0.00	0.00
35	Accounts Receivable due in >30 days		100017	0.00	0.00
36	Accrued Income on Loans		100018	0.00	0.00
37	Accrued Income on Investments		100019	0.00	0.00
38	Other Accrued Income		100004	0.00	0.00
39	Prepaid Expenses		100005	0.00	0.00
40	Internal Receivables		100001	0.00	0.00
41	Assets in Liquidation		100020	0.00	0.00
42	Suspense Accounts		100022	0.00	0.00
43	Other Assets		100021	0.00	0.00
44	(Less Allowance for Other Asset Losses)		100023	0.00	0.00
45	Total Net Non-Earning Assets (Other Assets)			0.00	0.00
46	TOTAL ASSETS			0.00	0.00
47	Liabilities and Equity				
48	Short-term Borrowings from other SACCOS and 2nd tier Organizations(≤30 days to		200014	0.00	0.00
49	Short-term Borrowings from Banks and Financial Institutions(≤30 days to maturity)		200015	0.00	0.00
50	Long-term Borrowings from other SACCOS and 2nd tier Organizations (>30 days to		201012	0.00	0.00
51	Long-term Borrowings from Banks and Financial Institutions(>30 days to maturity)		201013	0.00	0.00
52	Total Borrowed Funds			0.00	0.00
53	Interest Bearing Savings Deposits				
54	Savings Accounts		200016	0.00	0.00
55	Term Deposits		200017	0.00	0.00
56	Special Savings		200018	0.00	0.00
57	Other Savings		200019	0.00	0.00
58	Total Savings and Deposits			0.00	0.00
59	Non-Interest Bearing Liabilities				
60	Accounts Payable due in <30 days		200020	0.00	0.00
61	Other Payables		200000	0.00	0.00
62	Accrued Interest Payable on Savings		200021	0.00	0.00
63	Accrued Interest Payable on External Credit		200022	0.00	0.00
64	Taxes Payable		200006	0.00	0.00
65	Internal Payable		200023	0.00	0.00
66	Suspense Accounts		200024	0.00	0.00
67	Other Liabilities		200025	0.00	0.00
68	Total Non-Interest Bearing Liabilities			0.00	0.00
69	Total Liabilities			0.00	0.00
70	Equity/Core Capital				
71	Member Shares		300005	0.00	0.00
72	Voluntary Shares		300006	0.00	0.00
73	Other Shares		300007	0.00	0.00
74	Fixed Asset Revaluation Reserve		300008	0.00	0.00
75	Transitory Capital		300009	0.00	0.00
76	Donations and Grants (cash only)		300010	0.00	0.00
77	Reserve Funds		300011	0.00	0.00
78	Retained Earnings (Profit/Loss for Past Years)		300012	0.00	0.00
79	Profit/Loss for the Current Year			0.00	0.00
80	Total Equity (Sum 67:74)			0.00	0.00
81	Total Liabilities and Equity			0.00	0.00
82	Off Balance Sheet Other SACCOS commitments and obligations such as			0.00	0.00

NB *Loan Participations (Loans provided to other SACCOS or Guarantees to Other SACCOS)

*Non-Earning Deposit (Compulsory savings/cash collateral against borrowings in financial institutions)

SACCOS COMPLIANCE PRUDENTIAL INDICATORS AS PER THE MICROFINANCE ACT 2018 AND THE REGULATIONS, 2019

Prudential Ratios

CAMEL Area	Prudential Indicator for Deposit-Taking SACCOS	TCDC Standard	SACC OS Q1	SACCOS Q2	SACCOS Q3	SACCOS Q4	Peer Average
Capital	Minimum capital for A category license and B license	10mill TZ and 200mil TZ					
Asset Quality	Provisions: 1-30 days	0%					
	31-90 days	10%					
	91-180 days	30%					
	181-365 days	50%					
	Above 365 days	100%					
Earnings	Net Income/Avarage Total Assets	2%					
	Operating Expense/ Gross Income	65%					
Liquidity	Cash in Bank + Cash on Hand/ Savings & ST Liabilities	= or >15%					

10 Largest Loans

Number	Borrower's Name	Original Loan Amount	Amount Outstanding	Performing per Agreement? Yes/No	Number of times reschedule	% Outstanding vs. Total Loans
1						
2						
3						
4						
5						

6					
7					
8					
9					
10					
TOTAL		TSH 0	TSH 0		0.0%

10 Largest Depositors

Depositor Account #	Amount of Combined Savings	Voluntary Savings	Compulsory Savings	Fixed Deposits	Total Savings & Fixed Deposits	% of Total Deposits
					TSH 0	
					TSH 0	
					TSH 0	
					TSH 0	
					TSH 0	
					TSH 0	
					TSH 0	
					TSH 0	
					TSH 0	
					TSH 0	
TOTAL	TSH 0.00	TSH 0	TSH 0	TSH 0	TSH 0	